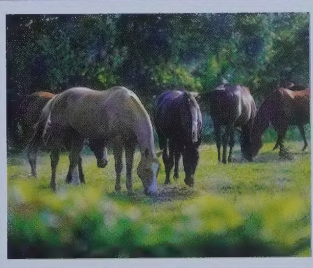


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RIDLEYANNUALREPORT2003



RIDLEY INC. PROFILE

RIDLEY Inc. is one of the largest commercial animal nutrition businesses in North America serving customers mainly in the United States and Canada. Ridley manufactures and/or distributes a full range of animal nutrition products including formulated feeds, premixes, supplements, low-moisture blocks, animal health products, feed ingredients, animal care and livestock handling equipment.

RIDLEY'S customers include livestock breeders and growers who produce meat, dairy and poultry products that are processed into consumer food products, as well as consumers who own or breed animals for recreational or companionship purposes. We create value for our customers by helping them to be more profitable in their own businesses through applied animal science and production technology.

RIDLEY'S operations in the United States include 29 mills with an annual production capacity of 1,535,000 tons (1,393,000 metric tonnes) of feed. Its Canadian operations comprise 15 mills with annual production capacity of 905,000 metric tonnes. Ridley's products are marketed under a number of highly regarded trade names, including Hubbard Feeds, Feed-Rite, Wayne Feeds, Ridley Block Operations, Ridley Feed Ingredients, Ridley Specialty Products, Daco Western Canada, Farmix, McCauley Bros., Inc. and CRYSTALYX®.

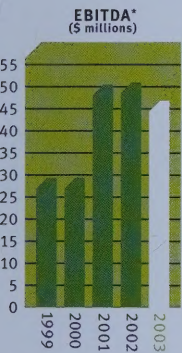
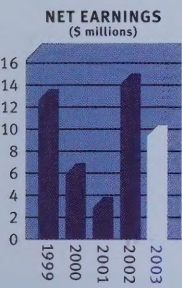
RIDLEY'S strategy for increasing shareholder value is to build on its leadership position in commercial animal nutrition markets, and to develop growth opportunities that meet its profitability and investment return objectives as a high-quality, efficient producer.

RIDLEY Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 70 percent of Ridley Inc.'s outstanding shares.

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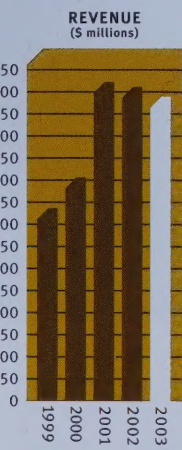
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OPERATING HIGHLIGHTS



* Earnings before interest, taxes, depreciation and amortization.

EBITDA and Revenue include the results of discontinued operations to date of disposition.



FEED OPERATIONS REORGANIZED

Ridley announced the reorganization of its U.S. Feed Operations and Canadian Feed Operations during fiscal 2003 to bring the two divisions under common management. This is a key element in Ridley's strategy to leverage their combined resources and improve accessibility to technical expertise for all of Ridley's livestock-producing customers.

USDA DROUGHT ASSISTANCE

Prolonged drought in the West led to the USDA introducing a drought assistance program for livestock producers, helping to generate extra sales volumes for the U.S. Feed Operations and pushing Ridley Block Operations to another record year for sales volumes.

QUALITY AND FOOD SAFETY

Ridley's industry-leading commitment to quality and food safety was strengthened in 2003. All of the Ridley Feed Operations facilities are registered to the ISO 9001 quality standard and have received HACCP (Hazard Analysis and Critical Control Points) certification. Ridley also launched *Food Sentry*, a magazine focused on food safety issues.

STRATEGIC ACQUISITIONS

Ridley acquired Shamrock Feeds in August 2002 and the assets of Heartland, Inc. in August 2003. These strategic acquisitions offer new growth opportunities and enhanced profitability for Ridley.

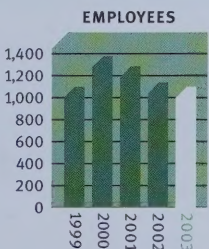
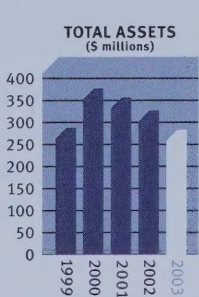
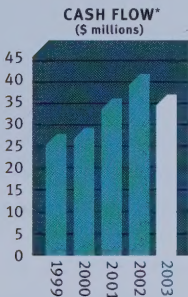
COTSWOLD SWINE GENETICS TO BE DIVESTED

Ridley announced on July 16, 2003 that it will divest Cotswold Swine Genetics and focus on growing its core feed and animal nutrition businesses. The Cotswold assets will be divested in an orderly process expected to conclude in mid-2004.

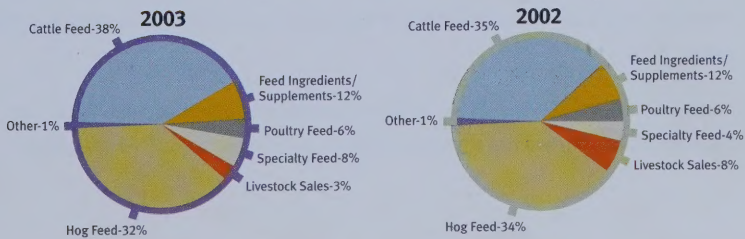
BANK DEBT REDUCED

Ridley generated strong cash flows from operations again in 2003, reducing bank debt from \$98.3 million to \$75.9 million, and further strengthening the balance sheet. Lower bank debt, combined with favorable interest rates, reduced interest expense by \$2.5 million, from \$9.2 million in 2002 to \$6.7 million in 2003.

* Cash flow generated from operations before changes in non-cash working capital.



SALES BY PRODUCT LINE - FISCAL 2003 AND 2002



RIDLEY'S animal nutrition businesses continued to make progress, with satisfactory results in fiscal 2003, despite poor economic conditions for livestock production in North America.

FARM gate receipts in the U.S. for meat, milk and egg production in calendar year 2002 were at their lowest level in many years, and they continued to be poor in virtually every production segment as we continued into calendar year 2003. Conditions were similarly weak for beef and pork production in Canada, with exceptions in the dairy and poultry sectors that operate under a

CHAIRMAN'S REPORT



Ridley continues to invest significantly in research & development, producing superior products for our customers.

supply management system. Pork production in both countries was impacted by low market prices for hogs, while beef production was hampered by the prolonged drought. The discovery in May of a single case of bovine spongiform encephalopathy (BSE) in a cow in Alberta has had a devastating effect on the Canadian beef industry.

DESPITE an unfavorable operating environment, our animal nutrition businesses performed well and produced satisfactory results. Feed sales volumes increased slightly overall, with the U.S. Division reporting increased volumes, aided by a drought assistance program introduced by the USDA. Sales volumes declined in the Canadian Division where there was no corresponding government drought assistance.

REVENUES increased in fiscal 2003 to \$664.5 million from \$663.5 million in fiscal 2002. The increased sales volume is not reflected in our reported sales dollars for two reasons: feed ingredient

costs were lower in the U.S., where there were record corn and soybean crops, and the U.S. – Canada exchange rate also was lower, affecting the conversion of U.S. revenues to Canadian equivalent.

NET earnings for 2003 were \$10.4 million compared with \$15.0 million in 2002. Each year's reported earnings are net of a loss on the discontinued Cotswold swine genetics businesses. In 2002, Ridley sold its Cotswold Europe swine genetics business, and just after year-end in 2003 we announced our intention to divest the Cotswold Swine Genetics business in North America. The losses on the discontinued operations were \$13.0 million in 2003 and \$12.3 million in 2002.

CLEARLY, we are disappointed that our restructuring efforts for Cotswold, while successful from an operating standpoint, were cancelled out by the prolonged period of poor hog market prices. Although there are signs that North American hog market prices are recovering, we are convinced that divesting Cotswold Swine Genetics is the right decision, and we can now focus our attention on our core animal nutrition businesses.

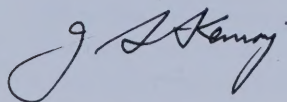
THE animal nutrition businesses are very healthy and have posted several consecutive years of good earnings and growth. Having eliminated Ridley's exposure to the risks associated with pork production, we expect to be able to return future earnings to more satisfactory and predictable levels.

OPERATIONALLY, much was achieved throughout the Company in fiscal 2003. Ridley continues to invest significantly in research and development, producing superior products for our customers. We are determined to be the industry leader in food safety, and in fiscal 2003 we undertook several initiatives to stake our claim. Ridley is the first and only animal nutrition company in North America that is registered to the ISO 9001 quality standard as well as being HACCP certified.

THE recent acquisitions of McCauley Bros., Inc. and Shamrock Feeds give Ridley greater geographic reach and allow us to address the needs of the market with a wider range of products. We are confident that the Heartland acquisition in August will produce similarly beneficial results. Ridley made significant investments again in fiscal 2003 to upgrade and expand our manufacturing capabilities. As we move forward, further prudent capital investments will be made to strengthen Ridley's business, either through internal growth or with strategic acquisitions.

THERE are significant challenges ahead in fiscal 2004, but we are ready to meet them. Ridley has aggressive plans for the future, and we have assembled the building blocks that will enable us to achieve our goals and to deliver improved financial results.

IN closing, I would like to thank our shareholders and the Board of Directors for their continued support. As always, I wish to recognize and thank our employees for their contributions in a difficult year. It is their energy and dedication that ensure our future success.

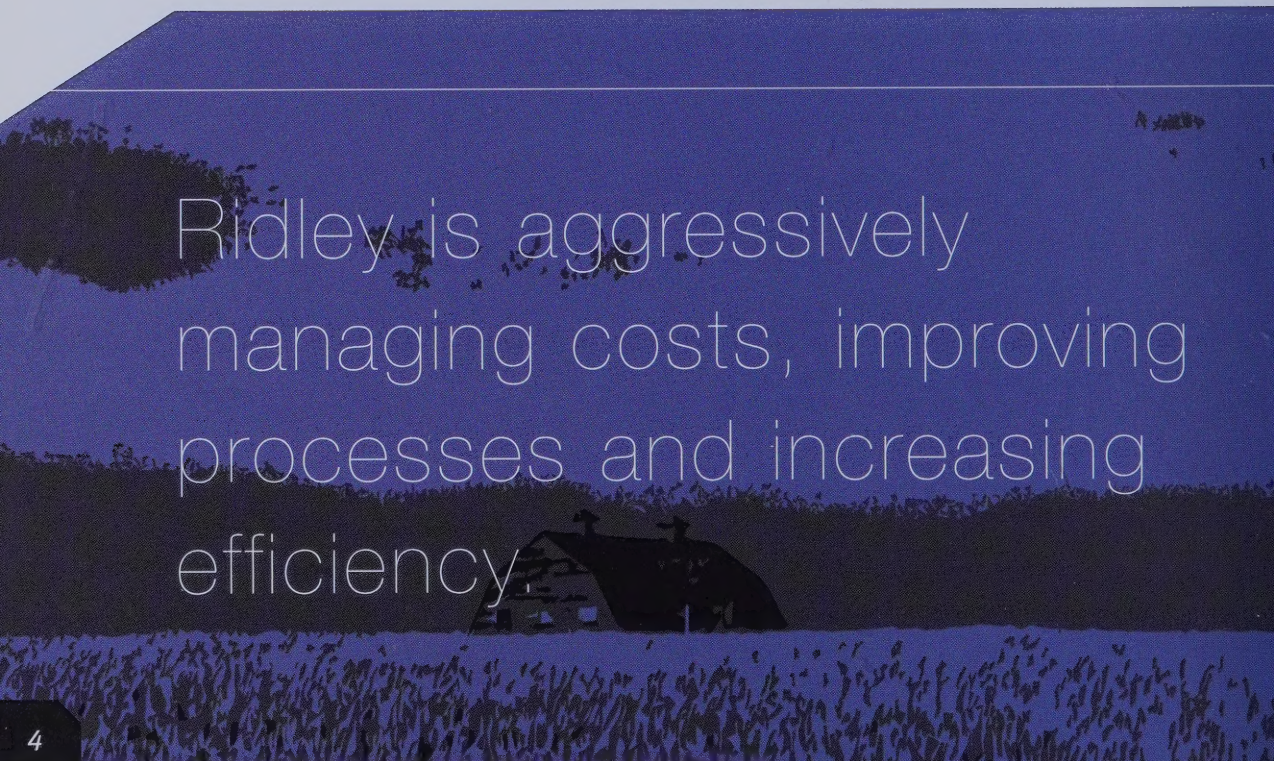


Dr. J.S. Keniry
Chairman

IN many respects, fiscal 2003 was a difficult year for the feed industry, as customers in each of our major market segments dealt with weak production economics and challenging conditions for their industry. Prices were generally low for meat, milk and eggs through most of our fiscal year, and the effects of drought in the West and a reported case of BSE in Canada combined to create increased risk and uncertainty in the marketplace.

BUT it was also a year of progress for Ridley Inc. We focused on improving our animal nutrition businesses, implementing a number of elements of our strategic plan that will help to drive Ridley to future profitability.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT



Ridley is aggressively managing costs, improving processes and increasing efficiency.

AMONG our accomplishments in fiscal 2003, we:

- **BEGAN** a process of rationalizing our organization structure, reorganizing our U.S. and Canadian feed divisions and putting them under common management. The combined business unit, renamed Ridley Feed Operations, will provide better customer service and improve customers' accessibility to technical expertise.
- **IMPROVED** the skills and depth of our management team, introducing a management training program for sales staff and a new sales compensation system with incentives focused on key products. We also recruited new executives in key functional areas, improving our bench strength and our ability to pursue new growth, both organically and through acquisitions.
- **ENSURED** that we provided support for our sales, customer service and production initiatives by implementing new product pricing, feed formulation, inventory management and performance measurement systems.

- **MADE** strategic investments that will lead to continued growth and profitability. In August 2002, we acquired Shamrock Feeds in Saskatoon, and during the fiscal year integrated it with our existing Saskatoon plant. Subsequent to the fiscal 2003 year-end, we acquired the assets and business of Heartland, Inc. in Bismarck, ND. Capital expansion projects were undertaken at several production facilities in response to growth opportunities or to improve production efficiency and flexibility. Other strategic investments are being investigated or are in the planning stages.

EACH of the initiatives above was identified in our long-term strategic plan as being important to Ridley's ability to achieve continued growth and profitability. We made very satisfactory progress toward achieving our objectives in these areas in fiscal 2003, and you can read about these achievements in more detail on the pages that follow.

IN view of the very challenging operating environment this year, Ridley reported satisfactory results. Net earnings were \$10.4 million in fiscal 2003 compared with \$15.0 million in 2002. Sales volumes were up in the U.S. Division, as both the U.S. Feed Operations and Ridley Block Operations benefited from a drought assistance program introduced by the United States Department of Agriculture. McCauley Bros. had a strong year in fiscal 2003, the first full year that it has been a part of Ridley. Sales volumes in the Canadian Division declined, primarily as a result of the prolonged drought conditions, and with no government programs for drought relief.

U.S. Division operating income was slightly down in 2003, to \$37.0 million from \$39.9 million in 2002, primarily due to a lower exchange rate in 2003 between the U.S. and Canadian dollars, and to a \$3.4 million provision for impaired loans receivable. Operating income for the Canadian Division also declined, to \$10.5 million from \$10.9 million in 2002, driven by reduced sales volumes as a consequence of the drought.

THE biggest influence on earnings in 2003, as was the case in 2002, was the effect of the discontinued operations of Cotswold. As you will read in more detail later in the Cotswold Swine Genetics (CSG) section of this Annual Report, CSG has suffered significant and sustained losses over several years. Restructuring and downsizing of Ridley's swine genetics and swine production businesses has been taking place over the past three years to reduce Ridley's exposure to the price risks inherent in commercial pork production. Despite the restructuring efforts and a more efficient production model, CSG has been unable to overcome an operating environment of poor swine production economics.

ON July 16, 2003 Ridley announced its decision to divest Cotswold Swine Genetics, and recorded a loss in 2003 to reflect impairment of the Cotswold assets. Combined with CSG's operating losses, a tax recovery recorded on amalgamation of Ridley with the Cotswold Canada subsidiary, and other expenses, the impact of the discontinued operations was \$13.0 million. In 2002, Ridley sold its Cotswold Europe operations, and the comparative 2002 results, including the operating losses of both Cotswold Europe and CSG, and the loss on disposal of Cotswold Europe, reflect a loss of \$12.3 million on discontinued operations.

THE decision to divest Cotswold was a difficult one, but in our judgement the interests of our shareholders are best served by returning to our core competencies in animal nutrition. The divestiture of Cotswold completely eliminates Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production.

1. Robert B. Gallaway
President & Chief Executive Officer

OUTLOOK

SEVERAL major factors influence the outlook for fiscal 2004. Poor livestock production economics played a large part in our operating results for 2003. When our customers are unable to sell their products at a profit, their resulting financial distress impacts on Ridley's sales volumes and requires greater vigilance in monitoring credit exposures. Fortunately, there are signs that market prices are improving and that fiscal 2004 will bring a better environment for producers of meat, milk and eggs.

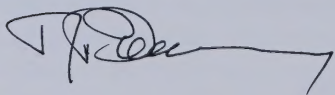
ANOTHER concern that is carrying over from fiscal 2003 relates to the persistent drought conditions in the western part of our trading area. Fiscal 2004 is starting out to be less severe than the previous year, but after good spring conditions, very hot and dry mid-summer weather presents cause for concern. The drought conditions of 2002 – 2003 caused many ranchers to cull their herds or move their cattle to areas with better moisture conditions. Should moisture conditions not return to normal, there may be an impact on Ridley's feed sales volumes.

ON the regulatory front, the Country of Origin Labeling (COOL) legislation introduced in the U.S. Farm Bill has added to the unsettled environment in the meat, milk and egg production industries. The legislation, which is described more fully in the Ridley Feed Operations section, may influence the agricultural sector significantly in the future, but the magnitude of its potential impact is not yet known.

ALTHOUGH the economic forces impacting our industry are significant, Ridley enters the new year with confidence and cautious optimism. The combination of fragile production economics, a tighter regulatory environment, and increasing costs will make fiscal 2004 another challenging year. However, we believe we have built a solid foundation for our business, and we expect steady improvement as we continue to focus on those fundamentals that will make the business stronger.

RIDLEY is aggressively managing costs, improving processes, and increasing efficiency. We will continue to make strategic investments in growth opportunities, in improving customer service, in food safety and the integrity of our production processes.

WE enter fiscal 2004 with a strong, experienced management team, dedicated people, safe and efficient facilities, and superior product lines. While we still face considerable challenges, we are committed to pursuing our long-term strategic plan, and to creating value for our shareholders.



Robert B. Gallaway
President & Chief Executive Officer

1. The management team of Ridley Feed Operations is focused on implementing its U.S. – Canada integration plan.

2. A capital expansion project at the Shamrock Feeds plant in Saskatoon gave Ridley more production flexibility to serve its markets in Saskatchewan.



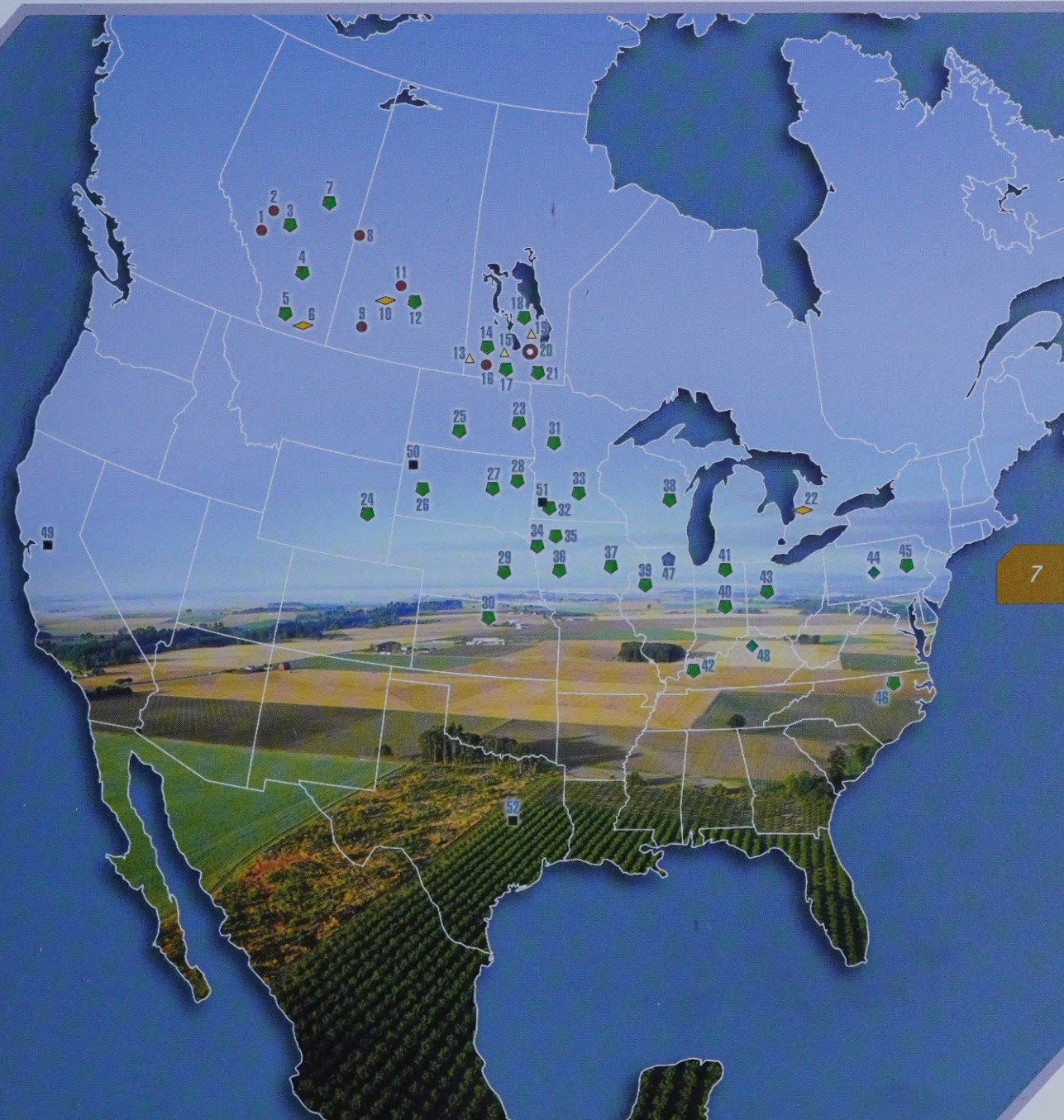
RIDLEY INC. OPERATIONS

- 1. Rocky Mountain House, Alberta
- 2. Rimbey, Alberta
- 3. Lacombe, Alberta
- 4. Linden, Alberta
- 5. Fort Macleod, Alberta
- 6. Lethbridge, Alberta
- 7. St. Paul, Alberta
- 8. Lloydminster, Alberta
- 9. Swift Current, Saskatchewan
- 10. Saskatoon, Saskatchewan
- 11. Prince Albert, Saskatchewan
- 12. Humboldt, Saskatchewan
- 13. Reston, Manitoba
- 14. Brandon, Manitoba
- 15. Austin, Manitoba
- 16. Killarney, Manitoba
- 17. Manitou, Manitoba
- 18. Arborg, Manitoba
- 19. Malton, Manitoba
- 20. Winnipeg, Manitoba
- 21. Grunthal, Manitoba
- 22. Mitchell, Ontario
- 23. Grandin, North Dakota
- 24. Lusk, Wyoming
- 25. Bismarck, North Dakota
- 26. Rapid City, South Dakota

KEY TO TYPES OF FACILITIES

- Primary Feed Plants
- Macro Premix Plants
- Retail Store Only
- Ridley Block Operations
- Ridley Feed Ingredients
- Cotswold Swine Genetics
- Micro Premix, Macro Premix, Primary Feed Plant, Retail Store
- McCauley Bros., Inc.

- 27. Huron, South Dakota
- 28. Watertown, South Dakota
- 29. Columbus, Nebraska
- 30. Beloit, Kansas
- 31. Alexandria, Minnesota
- 32. Worthington, Minnesota
- 33. Mankato, Minnesota
- 34. Sioux City, Iowa
- 35. Storm Lake, Iowa
- 36. Atlantic, Iowa
- 37. Iowa City, Iowa
- 38. Appleton, Wisconsin
- 39. Bushnell, Illinois
- 40. Castleton, Indiana
- 41. Shipshewana, Indiana
- 42. Hopkinsville, Kentucky
- 43. Botkins, Ohio
- 44. Chambersburg, Pennsylvania
- 45. Lancaster, Pennsylvania
- 46. Selma, North Carolina
- 47. Mendota, Illinois
- 48. Versailles, Kentucky
- 49. Stockton, California
- 50. Whitewood, South Dakota
- 51. Worthington, Minnesota
- 52. Buffalo, Texas



FISCAL 2003 was a challenging but successful year for Ridley Feed Operations (RFO), as organizational changes were made during 2003 to bring the Canadian and U.S. feed divisions under common management. A key element of the strategy was to leverage their combined resources and improve accessibility to technical expertise for all of Ridley's livestock-producing customers.

RIDLEYFEEDOPERATIONS

Organizational changes were made during 2003 to bring the Canadian and U.S. feed divisions under common management.

FISCAL 2003 RESULTS

FEED sales volumes were up by 5% for the U.S. plants, driven by good overall sales efforts that reflected a renewed focus by the sales team on generating new business, and by the prolonged drought in the central and midwestern United States. The length and severity of the drought triggered the introduction of a drought assistance program by the United States Department of Agriculture (USDA) that significantly increased feed sales in key western states.

THE Canadian plants experienced a reduction in feed sales volumes of 7% in fiscal 2003. As with the U.S. plants, they also were impacted by drought conditions and the consequent grain shortage that led to a reduction in the number of cattle on feed. However, there were no drought-related government assistance programs in Canada. The Canadian plants also contended with low market prices for pigs, combined with the higher cost of feed ingredients, resulting in an increasing number of pigs being moved to the U.S. for finishing, further reducing feed demand in Canada.

OPERATING income for the U.S. plants declined in comparison with the previous year. The decrease was due primarily to a \$3.4 million provision for impaired loans receivable, a weakening of the U.S. – Canada exchange rate, and increased costs for insurance, utilities and employee health care premiums.



THE Canadian plants reported slightly lower operating income as well, primarily reflecting lower sales volumes. They also experienced higher insurance and utilities costs, and recorded a higher provision for credit losses because of poor pork and beef production economics.

PRODUCTION ECONOMICS

CALENDAR year 2002, covering the first half of fiscal 2003, was one of the worst years ever for meat, milk and egg production in North America. In the U.S., farm gate receipts were down more than U.S.\$11 billion, their lowest level in 27 years. Prices continued to be poor in virtually every production segment as we moved into calendar year 2003. In Canada, conditions were similarly weak, except for the dairy and poultry sectors that operate under a supply management system.

PORK production prices were disappointing throughout most of the fiscal year. The pork industry recorded the longest streak of consecutive months of below break-even prices in North American history, ending in late spring. Although prices didn't drop to the crisis levels of 1998 thanks to surprisingly strong consumer demand, the pork production industry is in weak condition.

THROUGHOUT fiscal 2003, U.S. milk prices remained at levels that were below break-even due to an oversupply of milk brought on by producer consolidation in the industry. The dairy industry is following the recent experience of the pork production industry, with small producers leaving the business and large producers rapidly expanding their herds.

IN the beef industry, feedlot producers had a difficult time for most of the fiscal year, while the returns to cow-calf producers were very good.

The impact of the prolonged drought in the western United States and Canada will be described later in this report. The discovery of a single case of bovine spongiform encephalopathy (BSE) in a cow in Alberta has had a dramatic effect on the dynamics of the beef industries on both sides of the Canada – U.S. border.

EGG production economics in the U.S. were good for most of fiscal 2003, the first decent year in some time. Virtually all egg production in the U.S. is supplied by large integrated operations that manufacture their own complete feed. Ridley Feed Ingredients supplies much of the low inclusion premixes used by these producers in manufacturing their feed.

U.S. livestock producers were the beneficiaries of low feed prices throughout fiscal 2003, as another year of record U.S. corn and soybean crops helped to keep down the cost of manufactured feed. In a period of low market prices for their output, producers welcomed the relief. In Canada, the ongoing drought led to poor crops, and forced feed manufacturers to import feed grains, pushing up the cost of manufactured feed.

DROUGHT

AMONG the factors impacting RFO in fiscal 2003, none was more significant than the prolonged and severe drought in the western half of North America. Aside from its effect of reducing the size and quality of agricultural crops, the drought also reduced the viability of grazing lands for forage and dried up water sources for cattle. Unable to provide for their cattle, many ranchers were forced to liquidate their herds.

1. Steven J. VanRoekel, Vice-President, Ridley Inc. and President, Ridley Feed Operations.

2. Ridley's trailer fleet is being retrofitted with pop-up safety rails as part of a program to improve fall protection for its employees.

3. Ridley Feed Ingredients supplies micro feed ingredients – the vitamins, minerals, medications and other materials normally required in a diet – to some of the largest egg and poultry producers in the U.S.

THE United States Department of Agriculture (USDA) responded by announcing a US\$150 million drought assistance program initially focused on the most drought-stricken areas of Nebraska, South Dakota, Wyoming and Colorado, and later expanded to additional states. The program called for the use of USDA surplus stocks of non-fat dry milk as a protein source in feed rations, and required that livestock producers, feed manufacturers and feed dealers sign up to qualify for the program.

RFO plants serving the affected areas were ideally located to take advantage of the drought assistance program. RFO formed a multi-disciplinary team of sales personnel, nutritionists and species specialists to capitalize on the opportunity. The team reviewed the requirements to qualify for the program, registered RFO plants for the program, assisted customers and feed dealers in the qualification process, and reformulated feeds to include the non-fat dry milk.

THE entire operation was very well executed by the RFO team members. They did an excellent job of marketing the drought assistance program to customers, gaining a significant volume of new sales from August until expiry of the program in January.

SALES volumes also received a boost from an early spell of cold weather in October and November. Afterward, winter weather conditions were mild in both the western U.S. and Canada, resulting in lower sales volumes in the latter months of the fiscal year.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

ON May 20, a single cow in Alberta was confirmed to have bovine spongiform encephalopathy (BSE), throwing the Canadian beef industry into crisis.

ANNOUNCEMENT of the discovery led many countries, including the U.S., to close their borders to Canadian beef. Since most Canadian beef is exported, primarily on the hoof to the U.S., the Canadian beef industry was left with no market for most of its animals. The industry has been devastated by the incident. At the time this report was written, the U.S. government has since announced a partial re-opening of the border for some beef products.

RIDLEY SPECIALTY PRODUCTS

RIDLEY Specialty Products is a new business formed in 2003 to participate in the substantial growth occurring in the companion animal feed market in North America. Companion animals include rabbits, guinea pigs, horses, game birds, wild and domestic birds, and specialized livestock operations. Ridley Specialty Products is targeting rural mass merchants and specialty product manufacturers as the primary channels through which it will market its companion animal feeds.

RIDLEY Specialty Products will combine existing Ridley resources with strategic investments to secure a share of this growth oriented niche market segment. It will leverage Ridley's expertise in feed manufacturing, animal nutrition, purchasing and logistics to provide value-added service to customers in its target markets. The goal of

THE BSE impact has been much less noticeable in the U.S. Beef consumption was strong prior to the report of BSE in Canada, and has been unchanged afterward. Since about 4% of U.S. beef is imported from Canada, and that source has been closed off, cattle prices have strengthened in response to the shortage of supply.

TO determine the cause of the reported incident, the Canadian Food Inspection Agency (CFIA) launched a massive investigation that included the St. Paul feed mill. The St. Paul facility, consistent with all of Ridley's feed mills, is registered to the ISO 9001 quality standard and has implemented HACCP (Hazard Analysis and Critical Control Points). HACCP is a systematic approach to identifying and preventing contamination of food and food products during the manufacturing process.

RIDLEY'S crisis management response team worked with the CFIA investigators, spending hundreds of hours and reviewing thousands of documents dating back to 1996. In the end, the CFIA investigation demonstrated conclusively that the Company's practices are state-of-the-art, and that no prohibited animal protein products had been used by the St. Paul plant.

RIDLEY is very proud of its record for food safety, and of the work done by its crisis management team in the investigation. Ridley's commitment to the safety of its products and its ISO 9001 and HACCP systems were thoroughly tested, and the significant investment made in food safety was completely justified by this single but very serious incident.

COOL – COUNTRY OF ORIGIN LABELING

ONE of the most significant factors impacting the feed industry recently is the 2002 U.S. Farm Bill. It provides a U.S.\$80 billion subsidy to U.S. farmers and has been viewed very positively in the U.S. as a needed infusion to its farm economy. However, the bill is a contentious issue in Canada and internationally, because of its perceived impact on the competitive balance for agricultural products.

ONE provision of the Farm Bill has caused great concern for livestock producers and processors in both Canada and the U.S. It is a requirement that retailers provide Country Of Origin Labeling (COOL) for a variety of specified commodities, including beef, pork and lamb. Chicken is not one of the specified commodities. Country of origin labeling is currently voluntary but is slated to become mandatory in September 2004.

MANY organizations have issued forecasts of the impact of COOL, with some being in favor of the provision and some opposed. Producers and processors of beef and pork, on both sides of the Canada – U.S. border, are largely opposed because of the added costs and uncertainties that it implies. The cost of record keeping to track livestock from birth to retail shelf will ultimately be reflected in the price of the product, and is expected to affect producers' and processors' ability to export products outside of North America.

Ridley Specialty Products is to provide its customers with a strategic competitive advantage by focusing on:

- **PRIVATE** label retail programs
- **CUSTOMIZED** manufacturing services
- **ACCOUNT** representatives who specialize in retail merchandising
- **CUSTOMER** specific in-store marketing support
- **LOGISTICS** advantages

ALTHOUGH still in the early stages of this new venture, Ridley Specialty Products was able in fiscal 2003 to secure business with companies that are key participants in this growing market segment, and expects to build on this early success in fiscal 2004.

1. The companion animal feed market is being targeted by Ridley because of its substantial growth potential.



THE Canadian and U.S. beef and pork industries are highly interdependent, with large numbers of animals crossing the border at some stage of their life cycle, sometimes more than once. A high proportion of this movement takes place between the Canadian Prairie Provinces and the U.S. upper Midwest.

THE response of beef and pork producers and processors to COOL is not yet fully known, but implementation of COOL will certainly disrupt the dynamics of both industries.

THERE could be a significant impact for the feed industry, which relies heavily on the existing industries as they are currently structured. Feed production capacities have been configured over time to meet the feed requirements of these industries as they evolved. A dramatic shift in either or both of the beef and pork industries is likely to create imbalances in the feed industry's capacity to supply their nutritional needs.

ACCOMPLISHMENTS IN 2003

CREATION OF RIDLEY FEED OPERATIONS

ONE of the most strategically important changes made in fiscal 2003 was to reorganize the U.S. and Canadian feed divisions in North America under the name Ridley Feed Operations. RFO will be better able to leverage the resources of Ridley's business units in Canada and the U.S., to maximize the benefits of close co-ordination between our operations and to improve accessibility to technical expertise for livestock-producing customers. The change emphasizes Ridley's commitment to customer service and reflects the increasingly multinational character of our North American markets.

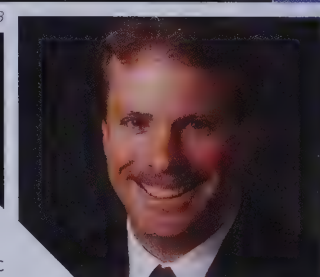
UNDER the restructuring, Ridley reorganized the executive and senior management team in North America, making five appointments. They are: Steven J. VanRoekel, appointed President, Ridley Feed Operations with responsibility for overall leadership and strategic direction; Calvin E. Martin, appointed Chief Operating Officer, Ridley Feed Operations, to assume responsibility for all sales, marketing and plant operations; George "Eddie" Wells, appointed Vice-President and Assistant Chief Operating Officer of Ridley Feed Operations, to assist in the implementation of strategic projects and operating improvements within the sales, marketing and production functions; Gordon Hildebrand, appointed Director, Finance and Administration for Ridley Inc. with responsibility for all divisional accounting, human resources and information systems for Ridley in North America; and A. Bruce Johnson, Ph.D., appointed Vice-President, Research and Nutrition Services for Ridley Feed Operations, with overall responsibility for the nutritional research, technical services, formulation, regulatory and quality assurance functions.

EACH of these appointments, and others that have been implemented, will help in the process of integrating all of the functional areas of Ridley's dry feed operations in North America.

1. Calvin E. Martin, Vice-President, Ridley Inc. and Chief Operating Officer, Ridley Feed Operations.

2. The Ridley Feed Ingredients plant in Mendota has specialized production equipment to manufacture its micro feed ingredients, and holds numerous NADAs (new animal drug applications) with the FDA.

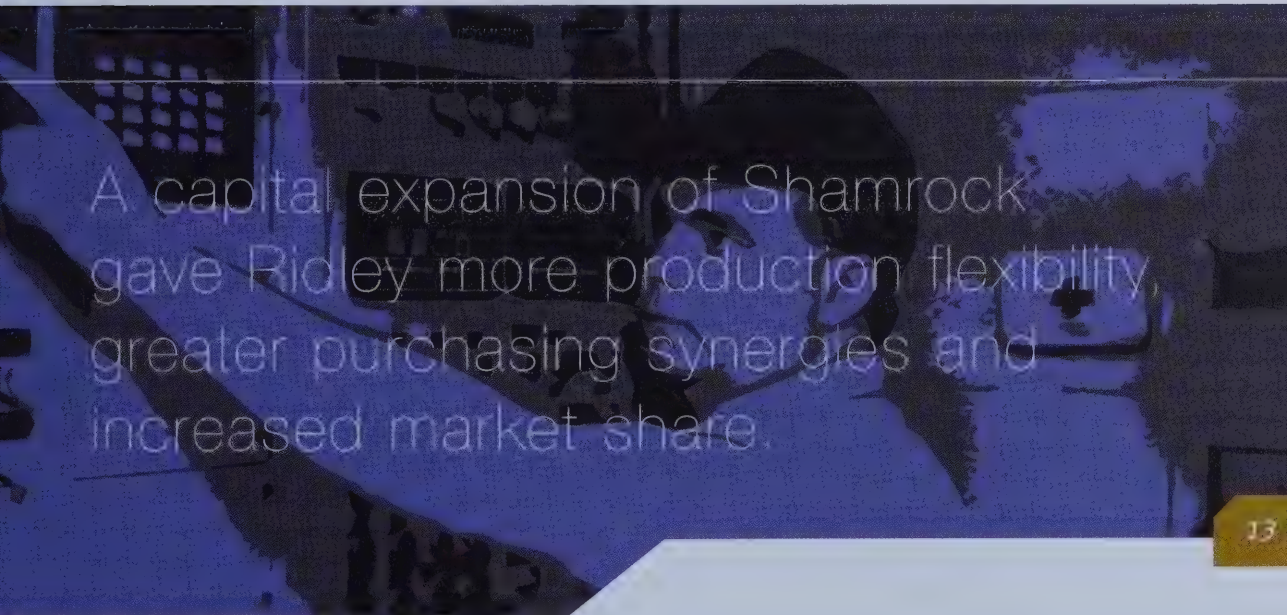
3. George "Eddie" Wells, Vice-President and Assistant Chief Operating Officer, Ridley Feed Operations.



RATIONALIZATION OF PRODUCTION CAPACITY

A major issue facing the North American feed industry is that it is a mature industry and faces chronic over-capacity. During the year, Ridley continued to address this issue by matching plant capabilities to the requirements of their markets:

- **SHAMROCK** Feeds was acquired in August 2002, and during fiscal 2003 was integrated with the Feed-Rite Saskatoon plant. The Feed-Rite operations were moved to the nearby Shamrock facility, and the sales, production and office functions were integrated. Subsequent to the integration, the Feed-Rite Saskatoon plant was sold, to be used for non-manufacturing purposes. A capital expansion of Shamrock gave Ridley more production flexibility, greater purchasing synergies and increased market share.
- **A** retail store and small production facility in Chambersburg, Pennsylvania was closed, and the existing volume was transferred to the Lancaster plant with little loss of business. Chambersburg will be converted to a McCauley Bros. equine facility, opening up the Mid-Atlantic thoroughbred and standardbred market area for McCauley's equine feeds and specialty products.
- **MAJOR** upgrades were made to the Iowa City plant over the last several years, creating additional capacity, allowing RFO to transfer production from the nearby Gringer Feed and Grain plant and terminate the lease on the Gringer plant.



A capital expansion of Shamrock gave Ridley more production flexibility, greater purchasing synergies and increased market share.

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MAJOR INVESTMENTS

- **SEVERAL** improvements were made to the Sioux City, Iowa plant to provide a full-line texturized feed mixing system. The improvements enable RFO to consolidate its texturized feed manufacturing from several western plants into Sioux City. This will free up capacity at other plants, allow for better product quality and consistency, and create the necessary focus to increase texturized feed sales. The Sioux City plant will also serve as the western hub for Ridley Specialty Products.
- **THE** rapidly growing Ridley Feed Ingredients division operates a plant in Mendota, Illinois, and its increased volumes required several capital improvements. New trace mineral bulk bins were installed, improving manufacturing efficiency and lowering raw material costs. A robotic palletizer and automated shrink-wrapping capability were introduced, improving labor efficiency and providing worker safety benefits. In addition, a sophisticated new batching system was developed, and as is required by our emphasis on feed safety, it continues to provide for full lot traceability.

THE Brandon, Manitoba facility has attained significant volume growth in recent years, and an expansion was completed in 2003 to meet the increased demand. Brandon now has two parallel pellet mill systems, improving manufacturing flexibility and increasing production capacity by about 15%.

SUBSEQUENT to year-end, Ridley acquired the assets and business of Heartland, Inc. in Bismarck, North Dakota. The acquisition enables RFO to realize a number of synergies by integrating the business with RFO's existing operations, more fully addressing nutrition needs of livestock producers in North Dakota, Montana and South Dakota. Ridley Specialty Products will be able to incorporate Bismarck's new packing line and its line of specialty feed products – particularly birdseed – to expand its companion animal business and extend its access to new specialty markets and distribution channels.

FOOD SAFETY

RFO has been a leader in feed integrity for a long time. Ridley is the first and only livestock feed manufacturer in North America to be registered to the ISO 9001 quality standard. Food safety initiatives in 2003 included:

- **IN** early 2003 the RFO U.S. plants received HACCP certification, and with the Canadian plants having been HACCP certified in 2002, Ridley Feed Operations has further strengthened its leading-edge quality commitment. These registrations acknowledge that Ridley's manufacturing processes are transparent, verifiable and in step with the rest of the food industry.
- **THE** American Feed Industry Association (AFIA) recognized Ridley Feed Operations with its inaugural Food Safety Innovation Award. The award recognizes firms and organizations that are on the cutting edge of food safety technology and that are responsible for pioneering new food safety methods.
- **RFO** launched a new magazine called *Food Sentry*. More than 60,000 copies of the magazine were distributed to producers, dealers, employees and consumers. Each issue focuses on RFO innovations in food safety and includes food safety articles that offer the perspective of producers and consumers.

RIDLEY FEED INGREDIENTS

RIDLEY Feed Ingredients (RFI) specializes in thoroughly researched, competitively priced micro feed ingredients, vitamin and trace mineral premixes, and feed additives. Its customers include regional feed manufacturers, distributors, wholesalers and large livestock and poultry producers in North America. The business provides customer-specific premixes and feed ingredients to the feed industry, and supports its products with a strong team of customer service and account representatives, a premier quality assurance program, and nutrition technology experts.

RFI has been a part of the Ridley organization since April 2000, when it came to Ridley as part of the Wayne Feeds acquisition. Its direction quickly shifted from primarily being an in-house supplier of micro premixes, feed ingredients and feed additives to becoming a major supplier of these products for the feed industry. With a growth-oriented culture driven by technology, automation and supply

1. Amy Krueger, Quality Assurance Specialist with Ridley Feed Ingredients, displays RFI's ISO 9001 and Facility Certification Institute (FCI) registrations. RFI also meets or exceeds rigid FDA and EPA standards.



RIDLEY'S Food Safety Committee met regularly to examine those issues that may affect the quality of its products, including issues of bio-security, BSE, foot and mouth disease, antibiotic resistance and bio-terrorism. It is an oversight committee charged with responsibility for ensuring that all of the necessary procedures are in place to support the policies established with respect to Ridley's food safety initiatives.

RIDLEY has demonstrated its commitment to food safety by its actions. In the future, Ridley will continue to raise the bar on food safety and bio-security, implementing further enhancements to its safety practices and procedures.

RISK MANAGEMENT

- **RIDLEY** has taken aggressive steps in risk management, devoting a significant amount of time and capital resources to identify the major potential risks facing the business and develop effective plans and processes to manage the risk. Ridley takes a very serious approach to the issue, believing that an effective risk management program will deliver a genuine competitive advantage to the Company.
- **IN** addition to the commitment to quality evidenced by the ISO 9001, HACCP and FCI registrations, Ridley's plants have been through a complete program of risk assessments by its insurance underwriter, focused on loss prevention and quality assurance.
- **ALL** RFO plants have been through an internal risk profiling process, a risk analysis tool whereby RFO staff identify the most significant potential loss exposures and develop plans and programs to eliminate or manage the potential risk.



1. Mendota's new robotic palletizer and automated shrink wrapping capability provide labor efficiency and improved employee safety benefits.



2. Michael J. Hudspeth,
General Manager, Ridley Feed Ingredients.

chain management, RFI has consistently generated increased sales volume and earnings by implementing several strategic initiatives:

- **ESTABLISHING** and maintaining global supplier alliances
- **BROADENING** its external customer base
- **PROVIDING** customized low inclusion products to the large integrated egg and poultry industry
- **USING** its specialized manufacturing capabilities, automated production processes and an industry leading quality assurance program to provide consistent quality products that optimize performance
- **TAKING** advantage of Ridley's expertise in purchasing, logistics, food safety and animal nutrition

THE management of Ridley Feed Ingredients continues to position the business to meet the changing needs of the North American feed and livestock industry, as demonstrated by the successful installation of automation tools at the Mendota, Illinois production facility, ISO 9001 and HACCP certification, offering web-based poultry nutrition tools (see www.ridleyfeedingredients.com) to customers and expanding its product distribution into new territories.

OTHER INITIATIVES

RFO made significant progress in 2003 on a number of other operational initiatives across the company:

- **A** leading authority on sales management conducted an advanced sales training program for the RFO sales force. The program was designed to help the sales team focus on innovative, cutting-edge selling processes and strategies, and identify RFO's competitive marketplace advantages.
- **THE** training program was coupled with a reenergized customer service program and a new sales compensation program with a better incentive scheme focused on key products.
- **AN** updated formulation program was introduced, allowing RFO nutritionists to develop formulated feeds more efficiently. It offers a superior formulation process, giving nutritionists the ability to make changes to products while increasing the stability, security and correctness of the feed formulation process.



With the enthusiasm of our sales force we are winning new business from our competitors and gaining market share.

- **A** new and improved product pricing model was developed and installed in the Canadian plants in fiscal 2003, with plans to roll it out in the U.S. plants in fiscal 2004.
- **EFFICIENCY** gains were achieved across the organization, with improvements being realized in several key performance indicators (KPIs).
- **RIDLEY'S** Worthington, Minnesota dry feed plant was recognized with runner-up honors in the Feed Mill of the Year contest sponsored by the *AFIA* and *Feed Management* magazine. This continues a long tradition of RFO's plants receiving recognition in the competition.
- **RFO** is committed to investing in the appearance of its facilities. This initiative is the CAPS (Clean, Attractive, Professional and Safe) program of investing in infrastructure. Under CAPS, RFO will devote a significant portion of its capital budget towards a five-year plan to improve the cleanliness and attractiveness of all facilities to provide a professional appearance and safe working conditions.

OUTLOOK FOR FISCAL 2004

FISCAL 2004 will be extremely challenging for Ridley Feed Operations. Across North America we are faced with a fragile economy, difficult livestock production fundamentals and a tightening regulatory environment.

HAVING said that, there are signs of moderate improvement on the horizon. Hog inventories are down, which should translate into better prices and an improved outlook in the future. Milk producers are still struggling in the U.S., but indicators point to higher prices later in calendar 2003. Beef production economics are very good in the U.S., although very poor in Canada.

CONTINUED low feed prices can be expected if current conditions translate into good crops in both Canada and the U.S. However, two major factors are clouding the outlook, being the potential effect of COOL regulations in the U.S. and the fallout from the BSE crisis in Canada, both of which were described earlier.

IN light of a difficult operating environment, RFO will be aggressive in pursuing cost reductions, particularly in the static or non-core segments of the business. At the same time, we will continue to invest in those segments that are perceived to have growth potential.

AFTER a year of strong performance in fiscal 2003, RFO has developed a lot of momentum as an organization. With the enthusiasm of our sales force we are winning new business from our competitors and gaining market share.

LOOKING ahead, a number of issues have been identified as being critical to the future success of Ridley Feed Operations. These critical success factors are:

- **EFFECTIVELY** managing the impact of poor meat, milk and egg production economics, including minimizing credit risk and overcoming accelerated producer consolidation.
- **EFFECTIVELY** managing manpower costs, including rising health care costs in the U.S., while realizing the maximum productivity out of our sales and technical positions and redeploying manpower to our growth segments.

- **EFFECTIVELY** implementing the U.S. – Canada integration plan for Ridley Feed Operations, implementing the critical elements envisioned in the integration plan, and building a strategic plan for all of North America.
- **ACHIEVING** our targeted sales and production key performance goals related to operating efficiency improvements, sales targets and risk management.
- **AGGRESSIVELY** reducing operating costs in fiscal 2004 while still investing in our growth initiatives.
- **ACHIEVING** our earnings targets in critical geographic areas and key markets.

ENTERING fiscal 2004, our employees are engaged, energized and focused on moving Ridley Feed Operations forward. The integration of the U.S. and Canadian feed businesses has forged strong and supportive working relationships, allowing us to direct attention now to addressing our critical success factors.

ALTHOUGH the external environment will be demanding again in fiscal 2004, we remain committed to continuous improvement in all aspects of our business, and to taking actions that will drive solid financial performance.



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1. Ridley's new magazine, Food Sentry, focuses on issues related to food safety and Ridley's commitment to the integrity of its feed products.

2. RFO's Sioux City plant was upgraded and will now be able to supply texturized feeds to several western plants in RFO, providing better product quality and consistency.

RIDLEY INC. RESEARCH AND NUTRITION SERVICES

RIDLEY maintained its commitment to providing customers with the most scientifically advanced animal feed products and nutrition programs in 2003. Ridley's reputation and market success are built on an extensive program of research and development designed to offer the most advanced livestock diets and promote maximum performance, health and profits.

FISCAL 2003 was a year that featured change and new definition in the Research and Nutrition Services group. A. Bruce Johnson, Ph.D., was appointed Vice-President, Research and Nutrition Services for Ridley Feed Operations, with overall responsibility for the nutritional research, technical services, formulation, regulatory and quality assurance functions across North America. The addition of Dr. Johnson and the consolidation of the Hubbard and Feed-Rite technical groups initiated an overall organizational change that is still ongoing.

RIDLEY Feed Operations currently has 29 Nutritionists, a Formulations Manager and a Research & Development Manager, all holding advanced degrees; a statistician; 9 people in the Quality Assurance and Regulatory Compliance group; 7 feed formulators and numerous support staff. This impressive Nutrition Services group enables Ridley to provide product support and technical advice that is unsurpassed in the feed industry. Its diversity drives a research program that asks the leading questions to which producers need immediate answers, and long-term vision for developing new, innovative programs and products.

RESEARCH SUCCESSES AND HIGHLIGHTS

DAIRY research focused on improving nutrition in the transition cow (late pregnancy / early lactation) stage and in early calf-hood. Ridley is a member of a consortium with the University of Wisconsin that is doing research on transition cow dietary needs. An agreement was reached with the University of Minnesota's Southern Research and Outreach Center, enabling them to construct two new calf-rearing facilities for an early calf-hood nutrition research program. This multiple year research agreement and partnership gives Ridley immediate access to nutrition findings and also will allow Ridley to continue to improve and develop new milk-replacer programs, study immunity programs designed to reduce calf disease, develop management guidelines and feeding programs for improving growth and development during this critical period, and begin to study nutrition programming effects on the environment. A new heifer-growing unit is uniquely positioned as a parallel facility at the Center. It will allow program expansion into heifer developmental projects and offer the possibility of increasing knowledge on how early calf-hood nutrition subsequently affects the future cow's nutritional status, production and longevity.

BEEF cattle research was centered on incorporating corn distilling co-products into beef cattle diets. A growing ethanol industry and increasing availability of these co-products drives Ridley to become the leader in this area. Dairy beef trials aimed at improving feed conversion and carcass traits through innovative feeding programs were nearing completion at the end of this fiscal year.

SWINE research yielded several new products for the year. Most visible is the launch of a new family of products called NutriCare™ Product Packages. These nutritional supplements are water-soluble stress management products. Water consumption continues during times of stress even though the baby or weaned pig may reduce feed intake. NutriCare™ Product Packages were developed in research trials to provide vitamin E, selenium, inulin, citric acid, trace minerals, enzymes and electrolytes in a water-soluble base. For pennies a day, producers now have four new research-based options to help guard young pigs against the effects of stress on feed intake, feed conversion, and the delicate balance of the digestive system.

ADDITIONAL swine nursery research focused on upgrading our current programs with natural sources of antibodies. Research confirmed that these food-based sources enhanced our current programs by giving a higher level and broader-based antibody content to our products. Nursery pigs realize this benefit through increased growth and higher health parameters.

STUDIES on co-product utilization from the corn distilling industry again indicated an economically dependent positive place for these co-products in swine diets. Alternative technologies to antibiotics received increased focus later in the year and will occupy a much more prominent position in the research program in the future.

POULTRY research was concentrated on improving the prediction equations of the web-based Ridley Poultry Model (RPM). This layer model gives our nutritionists, poultry specialists and customers the unique advantage of developing research-based decisions in nutrition, management and production-based economics.

QUALITY Assurance and Regulatory Compliance excelled in their efforts this year. ISO 9001 registration and HACCP certification is now in place for all of North America. A new customer complaint tracking and response system was implemented and received enthusiastically. Product registration, tagging and labeling, and internal and external auditing continued at record pace during the year, ensuring that we continue to offer superior product safety. Ridley QA began development of a new testing program for incoming ingredients using statistical evaluation and predictions. The purpose is to better monitor our incoming ingredients to improve both our price position and our product quality.

RIDLEY Research and Nutrition Services strives to be the leader in research-based nutrition products and advice. Continued investigation of new technologies drives several ongoing discussions with new research partners for developing mutual areas of interest. These public and private partners in universities and industry have unique capabilities that, when developed or captured by Ridley, enhance our ability to remain a leader in nutritional discovery and application.



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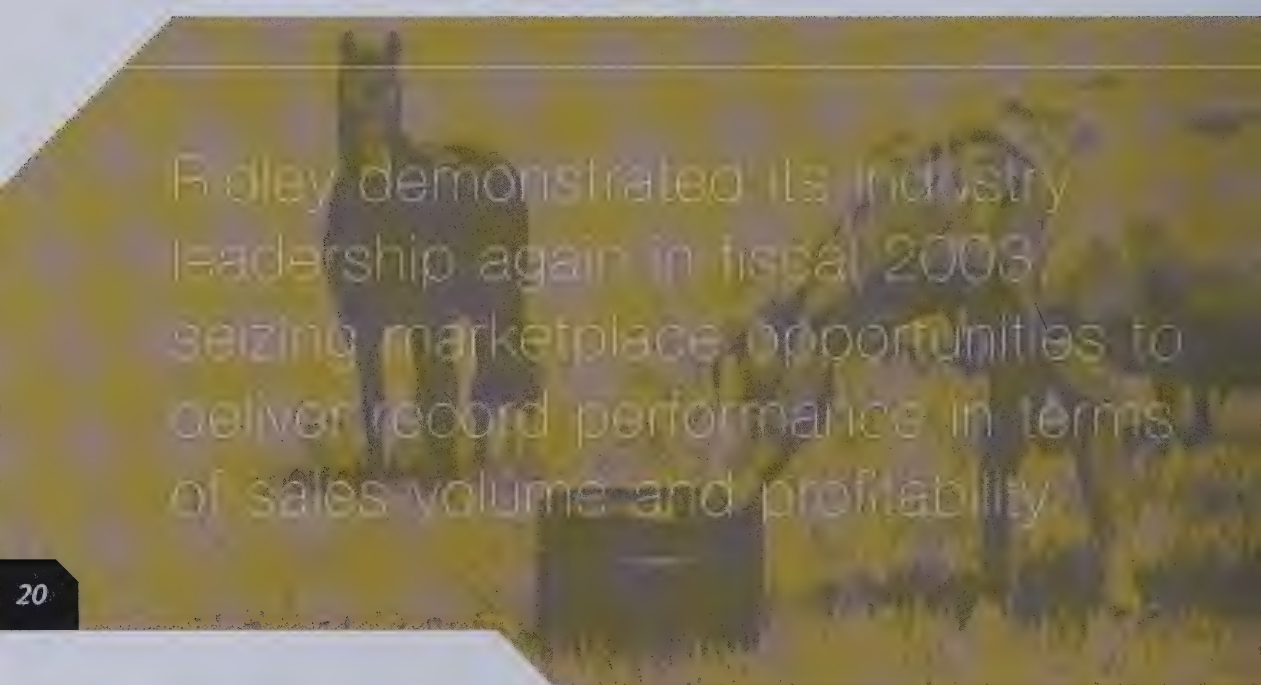
1. Dr. A. Bruce Johnson, Vice-President, Research and Nutrition Services for Ridley Feed Operations.

2. Mike Stott, Compliance and Formulations Manager, holds the inaugural American Feed Industry Association Food Safety Innovation Award, presented to Ridley in fiscal 2003.

RIDLEY Block Operations (RBO) is the market leader in low-moisture block manufacturing, marketing, distribution and research. Ridley demonstrated its industry leadership again in fiscal 2003, seizing marketplace opportunities to deliver record performance in terms of sales volume and profitability. Sales volume increased by 15% – the sixth consecutive year of record sales volumes – and profitability was also up by a significant, although lesser, amount.

KEY to this performance was the ability of the RBO team to react quickly to the challenges brought on by a severe drought in the U.S. Midwest and the Canadian Prairie Provinces, and turn the challenges into opportunities.

RIDLEYBLOCKOPERATIONS



Ridley demonstrated its industry leadership again in fiscal 2003, seizing marketplace opportunities to deliver record performance in terms of sales volume and profitability.

PROLONGED drought conditions made it impossible for pastures to support livestock needs. The United States Department of Agriculture responded to the crisis by introducing a drought assistance program in August that was initially focused on Nebraska, South Dakota, Wyoming and Colorado, and later expanded to additional states. The program involved using USDA surplus stocks of non-fat dry milk as a protein source in feed rations, and required that livestock producers, feed manufacturers and feed dealers sign up to qualify for the program.

RIDLEY Block Operations reacted quickly, registering its plants for the program, assisting producers and dealers in qualifying, and formulating new low-moisture blocks to include non-fat dry milk. The diligence of the RBO team was rewarded, as RBO became one of the suppliers of choice among drought-stricken farmers, with record sales in late calendar year 2002. Importantly, many buyers were first time users of Ridley's low-moisture blocks, and having been introduced to the improved performance and labor savings attainable by using Ridley's low-moisture blocks, a significant number should become long-term customers.

RIDLEY Block Operations took full advantage of the opportunity to offer product to its existing and new customers, although it created unprecedented distribution and manufacturing challenges. To meet the drought-driven demand, RBO kept its plants operating around the clock, moving product between plants to satisfy customers' requirements and incurring substantial costs for overtime, equipment maintenance, transportation and increased energy consumption.

A drought-induced shortage of sugar beets, combined with processing changes in the sugar industry, led to a reduced supply of beet molasses and drove up prices. Many competitors were unable to get sufficient quantities of molasses, but Ridley Block Operations, working closely with its suppliers and taking advantage of its purchasing power, was able to secure an adequate supply for its customers' needs.

RECORD sales volumes led to operating income for fiscal 2003 increasing to record levels as well, but because of higher ingredient, production and energy costs, the percentage increase was lower than the increase in volume.

MOLASSES suppliers anticipated that dry weather this past spring would reduce beet plantings and squeeze molasses supplies in fiscal 2004. RBO has begun to build its beet molasses inventories at the Worthington and Whitewood plants to help ensure adequate supplies of molasses in the event of a small beet crop.

RESEARCH STUDIES

THE market leadership of Ridley Block Operations was also demonstrated through its continuing research and new product development in fiscal 2003. The goal of RBO is to produce the finest product in the marketplace with the safest ingredient profile. To that end, it has formed several research alliances with universities and private livestock operations in order to test the efficacy of its products in the field, and further stretch the lead over its competitors.

DURING the year, Ridley Block Operations continued to support research into the use of low-moisture blocks to influence grazing patterns as a way of improving range management. This emphasis on Cattle Grazing Distribution Research (CGDR) has led to several patent applications.

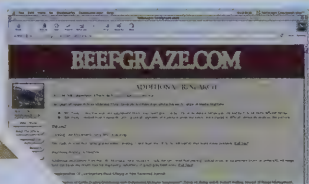
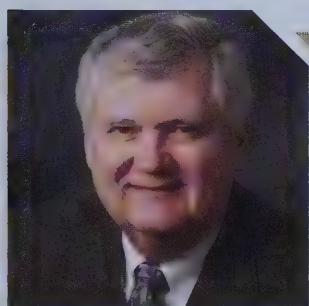
RECENT research conducted on U.S. Forest Service (USFS) allotments in central and western Montana demonstrated that CRYSTALYX® low-moisture blocks are a powerful tool for attracting cattle to graze underutilized areas, ensuring uniform and efficient use of pasture and grazing land. This is especially valuable to producers who depend on public land grazing allotments.

THE improved environmental stewardship that resulted from using CRYSTALYX® low-moisture blocks is a win-win solution for everyone. It enables the producers to graze more days on public lands or to graze more animals. Government

land regulatory agencies such as the USFS now have a positive alternative other than to simply restrict grazing, which will protect sensitive riparian areas and improve wildlife habitat.

POSITIVE testimonials from both producers and USFS employees as a result of the research were used in producing a pamphlet and video called "A Public Lands Grazing Solution." A new web site, Beefgraze.com, was set up to provide additional information on CGDR and to provide a site to order the video or pamphlet and locate the nearest dealer.

RIDLEY Block Operations is also focusing on diversifying its product line to provide a convenient and effective means of free-choice supplementation in a variety of pasture conditions as well as for other species.



1. Robert E. Frost, Executive Vice-President, Ridley Inc., and General Manager, Ridley Block Operations.

2. In very dry conditions, Ridley's low-moisture blocks are an excellent way to improve the digestibility of low quality forage, helping producers maximize forage utilization and meet the nutrient needs of cattle.

3. RBO's newest web site, Beefgraze.com, provides ranchers with a wealth of grazing information and access to research reports on the benefits of CRYSTALYX® Brand Supplements.

AN example of this initiative is the dairy research conducted at the U.S. Dairy Forage Research Center in Wisconsin. The research showed that using CRYSTALYX® Buffer-lyx™ low-moisture block supplement as a free-choice dietary buffer for dairy cows helped control subacute ruminal acidosis (SARA), a disorder that occurs when the pH is too low in a dairy cow's rumen. This newly designed formulation with patent pending technology has demonstrated increased milk production and dry matter intake for high-producing, lactating dairy cows.

TO further separate itself from competing low-moisture block manufacturers, Ridley Block Operations built a new laboratory at its Worthington plant. This facility will allow consultant research personnel to conduct testing related to many areas of new product development, manufacturing process control, the evaluation and screening of new ingredient applications, and other new areas of product discovery. The instrumentation and equipment provided in the laboratory will allow for a much more controlled experimentation environment to enhance testing procedures and make ingredient and end-product evaluations.

PATENTS

MUCH of the market strength of Ridley Block Operations lies in its intellectual property, and RBO is improving its position by pursuing patents for new products and extending existing patents in several areas. There are also ongoing efforts to protect the intellectual property and leverage the advantage it provides to increase business with existing customers and develop new markets. Several new products are being developed using RBO's extensive knowledge in the manufacturing of low-moisture blocks.

IN fiscal 2002 RBO acquired the rights for "Pound-A-Day," a solid nutritional feed in bar form. This product has significant potential in several markets, with the equine market being the first one targeted. During fiscal 2003, an equine product manager was hired to develop and launch this product. An eight-ounce equine nutrient bar was developed to deliver supplemental nutrients for endurance and stress relief. Based on positive test market results, various packaging options were evaluated and then appropriate equipment was obtained to manufacture product at the Worthington, Minnesota plant. EquineHP™ Performance Bar, the first product to be developed, should be in the market by the first quarter of fiscal 2004.

AN important component of Ridley Block Operations' marketing efforts is ongoing marketing support activities to educate distributors and producers on the value of low-moisture blocks. Several new field positions were added in fiscal 2003 to enable RBO to maintain its high level of support in all market segments. A significant number of producer meetings were held and this continues to be a very important function in maintaining and growing volume.

PRODUCER meetings present an opportunity to obtain feedback from the field, enabling RBO to be responsive to end-user needs. RBO introduced a new sixty-pound container size to meet the needs of the sheep, goat and equine markets, specialty products and smaller producers.

PRODUCER feedback led to the expansion of the ROLYX™ fly control line with a new product that includes a magnesium supplement. ROLYX™ Fescue Mag is designed to provide fly control for cattle grazing in fast growing fescue pastures that are low in available magnesium, and where grass tetany can be a concern. Several other proprietary new products are in the pipeline and scheduled for introduction in 2004.

RIDLEY Block Operations focused on other key areas of operations in fiscal 2003 – sales training and risk management.



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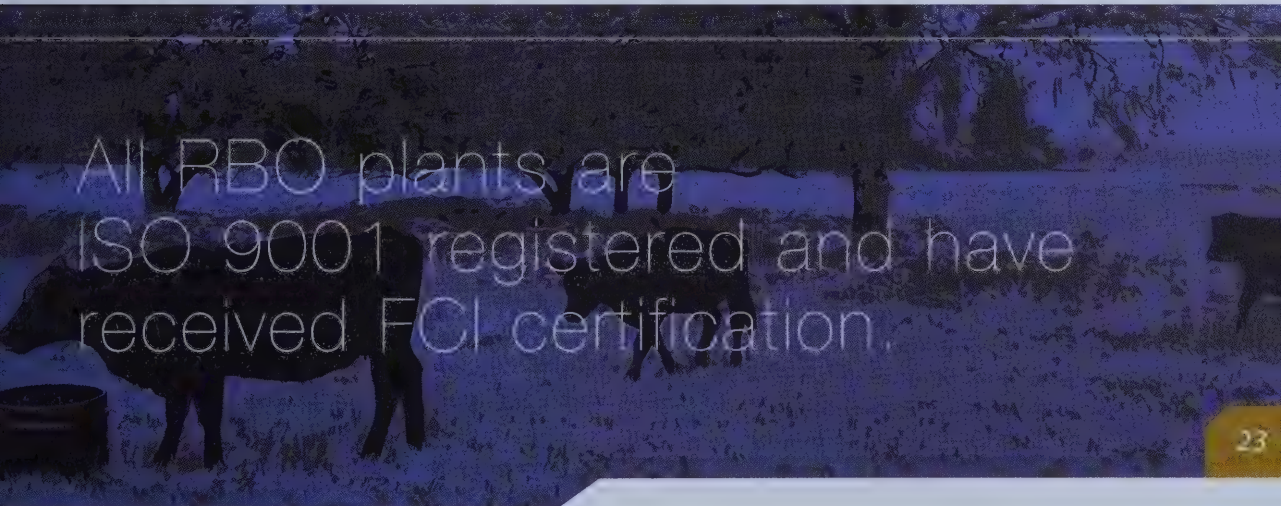
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THE RBO sales force is very knowledgeable about how its products can most effectively meet its customers' needs, and it is well supported by technical information, product research, advertising and promotional material. To ensure the sales force continues to perform at the highest level, a leading authority on sales and sales management was contracted to conduct an advanced sales training program designed to enhance the team's skills.

RIDLEY Block Operations recognizes the need to be vigilant in ensuring the safety of its employees and the products it manufactures. All RBO plants are ISO 9001 registered and have received FCI certification. In 2003, all RBO plants underwent a complete program of risk assessments by its insurance underwriter, with a focus on loss prevention and quality assurance. In addition, RBO staff were involved in an internal risk profiling process designed to identify the most significant potential loss exposures facing the business, and to develop plans and programs to eliminate or manage these risks.

FISCAL 2004 OUTLOOK

FISCAL 2003 was a challenging year, with much of the activities of Ridley Block Operations being dictated by the need to respond to drought conditions. While the drought was responsible in part for increased sales of low-moisture blocks, it also resulted in producers either liquidating cattle or moving them from drought-stricken areas of the U.S. and Canada into states and provinces that had received rainfall.



All RBO plants are
ISO 9001 registered and have
received FCI certification.

BOTH cattle liquidation and their movement are a concern to Ridley Block Operations since there are now fewer cattle in those areas in which we have a strong market presence, and more cattle in areas in which we do not have the same high level of product recognition nor representation by distributors and dealers.

IN addition, most of our market area received adequate rainfall this spring and producers did not have to purchase as much feed supplement for their cattle through the summer. The combination of these factors, plus expected molasses shortages and continued higher prices, will make it difficult for Ridley Block Operations to match the volume and operating income levels of fiscal 2003.

THE environment in the year ahead will not be as favorable as fiscal 2003 was for low-moisture block sales, since most areas received adequate moisture this spring. However, we know that our strategies in fiscal 2003 were sound and well executed, and they will serve us well again in fiscal 2004. The strong brand recognition of RBO products, and our commitment to quality, consistency and excellence in customer service will allow Ridley Block Operations to sustain its position as the industry leader.

1. CRYSTALYX® Brand Supplements are the leading low-moisture block supplements on the market. They are highly palatable and their hygroscopic nature allows animals to consume them on a regular but controlled basis.

2. Dr. Dan Dhuyvetter and a consultant confer on a project in the Worthington laboratory. Dr. Dhuyvetter is involved in new product development for Ridley Block Operations.

3. CRYSTALYX® low-moisture blocks are effective in attracting cattle away from riparian areas to graze on higher slopes, resulting in more uniform grazing and improved sustainability of the forage base.

McCAULEY Bros., Inc., Ridley's equine nutrition business unit, turned in a strong performance in fiscal 2003, increasing sales volumes and sales revenues. McCauley, in which Ridley acquired a 51% interest in April 2002, produces a line of premium quality equine feeds and nutritional supplements from a state-of-the-art plant in Versailles, Kentucky, in the heart of one of the largest concentrations of thoroughbred and standardbred horses in America.

ITS reputation for excellence in equine nutrition has been built over the past 65 years by focusing exclusively on the equine market, using only the finest ingredients available and by applying the most stringent quality control measures to all aspects of production. McCauley's feed formulations are fixed and are only reformulated to improve their nutritional qualities. To ensure the highest quality and consistency, formulas are not "least-costed," and because the company's Versailles facility manufactures only horse feed, safety is assured – there are no potentially harmful additives on-site.

McCAULEYBROS.,INC.

McCauley has built
its reputation for excellence
in equine nutrition over the
past 65 years.

FISCAL 2003 RESULTS

IN fiscal 2003, McCauley's strong reputation and the high quality of its products produced an increase of 13% in sales volumes. Key to this growth was increased market share in Kentucky, larger export sales and expansion into new markets in the Mid-Atlantic States.

IMPROVED sales volume in Kentucky was achieved despite lush pastures produced by heavy rainfall in the spring, which typically reduces the amount of manufactured feed that farm managers must buy. Another key factor in the 2003 improvement has been McCauley's Rice Bran Oil, which continues to impact positively on the company, both in terms of growing sales and in the way it acts as a door-opener for McCauley's other products.

TOTAL sales revenues rose in 2003, primarily due to price increases introduced to offset a steep rise in oat prices. McCauley normally purchases the premium oats it uses in most of its equine diets from western Canada, but the drought in western Canada resulted in a scarcity of high-quality oats

and a doubling of prices for what was available. As a result, McCauley had to source oats from offshore in fiscal 2003, paying higher prices and incurring additional shipping costs.

MARGINS were slightly reduced as the rapidly increasing cost of oats outpaced McCauley's ability to re-price its products, particularly when faced with lower-priced competitors' products that are predominantly mids and/or corn based.

IN spite of lower margins, McCauley managed to increase its operating income as a result of higher sales volumes, better plant utilization, and a number of cost reductions, including savings realized on ingredient and packaging costs as a result of Ridley's purchasing power.

THE relationship between McCauley and Ridley is also beginning to develop synergies in terms of wider exposure for McCauley products through Ridley's dealer network, an expanded advertising program and an increased sales presence brought about by sharing McCauley's equine expertise with the Ridley sales team.

EXTENDING MCCAULEY'S REACH

MCCAULEY'S considerable market share in the thoroughbred and standardbred industries of Kentucky makes it difficult to achieve further significant growth in this market. While efforts will continue to build on their market position in the prestigious trading area in the immediate vicinity of the Versailles plant, McCauley is also driving overall growth by expanding its presence in the vast equine markets of the Mid-Atlantic region of the U.S. There are extensive horse numbers in the suburbs surrounding major cities in the Mid-Atlantic region that encompasses Pennsylvania, Maryland and Delaware. The area represents the largest market for premium equine feeds in North America.

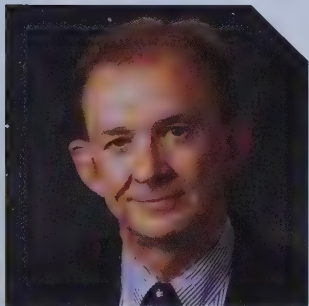
MCCAULEY has been serving this region from its Versailles plant, but high freight costs make it difficult to compete effectively. To address this, McCauley and Ridley will cooperate on construction of a new equine feed plant in Chambersburg, Pennsylvania, to be completed in late 2003. The Chambersburg plant is the first step in a strategy to expand sales of McCauley feeds and nutritional products to areas of the U.S. where there are concentrations of breeding farms, racing stables, English and western performance stables, upper-end riding stables and pleasure horses.

OUTLOOK FOR 2004

WE expect the strong operating performance that McCauley delivered in fiscal 2003 will continue in the coming year. Improving

conditions in the general economy and particularly in the equine industry, growing synergies with Ridley in terms of cooperative marketing and an expanded distribution network, and an expected reduction in Canadian oat prices all will allow McCauley to increase sales volumes and recover margins in fiscal 2004.

MCCAULEY'S new plant in Chambersburg also will come on line in fiscal 2004, allowing the company to expand its market reach and begin to build significant market share in the important Mid-Atlantic region.



1. Dr. Dennis B. Longmire, C.E.O.,
McCauley Bros., Inc.

2. Customers have access to a wide
array of McCauley services and
support, including seminars,
personal consultations, and custom
feed formulations to address
special nutritional requirements.

3. McCauley's Rice Bran Oil is a
feed supplement with numerous
advantages over alternative fat
products. McCauley is the exclusive
source for unrefined rice bran oil for
the equine industry.

4. Horse owners expect that a feed
program developed by McCauley
will be high in nutritional quality,
and will contribute to their horse's
healthfulness, appearance and
overall contentment.

COTSWOLD SWINE GENETICS

Exiting Cotswold is the final step in eliminating Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production.

RIDLEY announced on July 16, 2003 that it had taken the decision to divest Cotswold Swine Genetics (CSG), its North American swine genetics business. Subsequent to making the decision, Ridley entered negotiations with parties interested in acquiring the business and continuing to produce and market the Cotswold product.

RIDLEY'S involvement in the swine genetics business began in the early 1990s with the acquisition of the Canadian franchise rights from Cotswold Pig Development Co. Limited in the United Kingdom. That involvement expanded in 1998 with acquisition of the parent company, which had operations in the United Kingdom and Germany and exported its swine genetics to more than 40 countries.

SINCE 1998, Ridley has incurred significant and sustained losses in the genetics business. Those losses stemmed primarily from the swine price crisis of 1998, the prolonged impact of Foot and Mouth Disease and Classical Swine Fever in Europe, and most recently the longest period of below break-even hog prices in North America's history. Although the disease outbreaks in Europe were the primary factor in Cotswold's losses, the key driver for recent operating results has been a prolonged period of below break-even hog market prices.



1



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IN fiscal 2001, Ridley announced its decision to exit Quality Swine Systems, reducing its direct exposure to the price risks associated with commercial pork production by one-third. Ridley further reduced its exposure in May 2002 with the sale of the Cotswold Europe swine breeding operations, completely exiting the swine genetics business in Europe.

RIDLEY also restructured its North American-based swine genetics business, renaming it Cotswold Swine Genetics, installing a new senior management team and taking a number of significant steps to reduce production costs, streamline operations, improve sales and implement a more effective risk management program. Each of these initiatives was completed with great success in fiscal 2003.

HOWEVER, despite the restructuring efforts, the North American business has been unable to overcome an operating environment of poor swine production economics. Hog market prices plunged in the second half of fiscal 2002 and stayed at below break-even levels for most of fiscal 2003, until spring of this year.

WEAK hog market prices reduced CSG's revenue from by-product sales, caused pork producers to delay their decision to purchase replacement breeding stock, and lowered the prices paid for breeding stock, all of which contributed to mounting losses. Revenues were down by \$5.5 million in fiscal 2003, partially offset by \$2.0 million in operating cost efficiencies, resulting in CSG reporting an after-tax loss of \$6.5 million, which was \$3.9 million in excess of expectations.

IN the end, although the pork industry in North America is showing signs of recovering, and there is strong demand for the Cotswold product, Ridley decided that the amount of additional capital necessary to update the production system, and the research and development expense required to keep the genetics business viable for the long-term, is not consistent with our core strategy of feed and nutrition, and not in the best interests of our shareholders.

EXITING Cotswold is the final step in eliminating Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production. The decision, while difficult, enables Ridley to concentrate on growing its feed and animal nutrition businesses and returning future earnings to more satisfactory and predictable levels.

RIDLEY'S core feed and nutrition businesses, a significant portion of which is dedicated to serving pork producers, have posted several consecutive years of very good earnings and growth. These businesses remain very healthy, and divesting Cotswold enables the Company to focus its resources more intensely on Ridley's core competencies of feed and nutrition.

1. Steven J. VanRoekel, Vice-President, Cotswold Swine Genetics.

2. Cotswold's rigorous biosecurity measures provide assurance to swine producers that they are receiving breeding stock with a superior health status.

RIDLEY INC. BOARD OF DIRECTORS



J.C. BROWN, BSA, MSC, PAG, FAIC **NON-EXECUTIVE DIRECTOR, AGE 74**

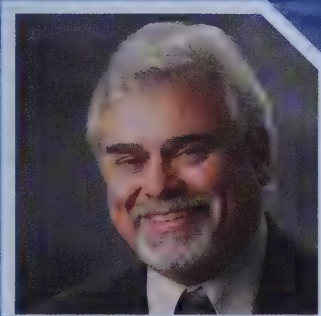
Director since May 1997. Since 1996, Principal, J.C. Brown Consulting Services. Formerly Vice-President, Marketing with Feed-Rite Ltd. and earlier held a senior position with the Canadian Wheat Board. Former National Director of the Agricultural Institute of Canada and Past President of the Manitoba Institute of Agrologists. Actively involved in western Canada's agri-business sector for 49 years.

J.S. KENIRY, BSC, PHD, FTSE, FRACI, FAICD **CHAIRMAN, AGE 60**

Director and Chairman since 1997. Director of Ridley Corporation Limited, Australia, since 1990 and its Chairman since March 1994. Formerly held executive positions with leading Australian public companies, CSR Limited and Goodman Fielder Limited. Presently Chairman, Sugar Australia Pty Ltd; Immediate Past-President, Australian Chamber of Commerce and Industry; and a Director of a number of other statutory bodies and companies. Fellow of the Royal Australian Chemical Institute, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

R.L.M. DAWSON, MA **NON-EXECUTIVE DIRECTOR, AGE 68**

Director since May 1997. Principal of Fulcrum Associates, a Winnipeg consulting firm specializing in value-added agriculture and sustainable development. Held senior management positions with Cargill in Europe, South America and Canada, including responsibilities for grain marketing, the feed industry, the seed business, and corporate affairs. Chairman of the Winnipeg Commodity Exchange, 1978. Served on Canada's Agricultural Advisory Committee to the "Uruguay" GATT Round and on the Economic Innovation and Technology Council of Manitoba.



L.J. MARTIN, PHD

NON-EXECUTIVE DIRECTOR, AGE 58

Director since May 1997. Chief Executive Officer of the George Morris Centre since 1998, formerly Director of Research since its inception in 1990. Previously Professor and Chair, Department of Agricultural Economics and Business, University of Guelph. Served on the Public Advisory Committee on Regulation Review for Agriculture Canada and as Chair, Canadian Agri-Food Competitiveness Council (1991 - 1994). Has extensive experience in competitiveness and trade issues and has facilitated the strategic visioning, planning, and development of strategic alliances for many organizations.



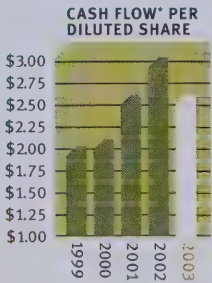
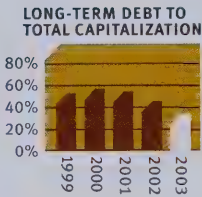
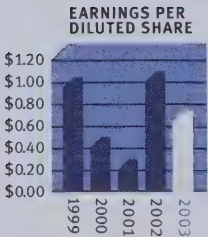
M.P. BICKFORD-SMITH

NON-EXECUTIVE DIRECTOR, AGE 43

Director since August 2001. CEO and Managing Director of Ridley Corporation Limited since November 2000. He was previously with the Man Group and was Managing Director of Australia where the main focus of the last three years was the negotiation and implementation of a three-way merger within the domestic refined sugar industry. Before moving to Australia he was based in Hong Kong with responsibility for managing risk relating to the Man Group's sugar businesses within the region. He joined the Man Group in 1991 as Manager of business development for the sugar division where he gained experience assessing business opportunities in South East Asia, South America and Eastern Europe. Before moving to the Man Group he spent five years with Phibro, the commodity trading division of Salomon Brothers, where he worked in several soft commodity divisions with the main focus being proprietary trading, structured financing and marketing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ridley's positive financial results generated significant cash flow, which allowed the Company to continue its debt repayment program for the third consecutive year.



* Cash flow generated from operations before changes in non-cash working capital.

THE following discussion and analysis should be read in conjunction with the Company's financial statements that appear on pages 41 to 60 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

RESULTS OF OPERATIONS

OVERVIEW

Fiscal 2003 was a year of mixed results for Ridley Inc. Overall results are considered satisfactory considering the economic conditions for meat, milk and egg producers and external factors relating to drought conditions in both the U.S. and Canada and the BSE case in Canada that closed the U.S. border to Canadian beef products. In addition to the financial results, a number of strategic decisions were made or put into action. The Company made a decision to divest itself of the Cotswold Swine Genetics business, which will ultimately reduce our exposure to the volatility of owning animals. Reorganization was announced for the feed operations in North America to leverage the resources of Ridley's business units in Canada and the U.S., which will improve the accessibility to technical expertise for its livestock-producing customers. The objective is to ensure we continue to maximize the benefits of close coordination between the operations regardless of where they are positioned geographically. The Company also continued to adopt world-class quality processes to ensure integrity and traceability of its products. Ridley Feed Operations is the first major feed and nutrition company in North America to achieve ISO 9001 and HACCP registrations.

Earnings in the Canadian Division were down slightly from fiscal 2002 due mainly to volume reductions. The drought conditions in western Canada had a negative impact on volumes, as did the border closing late in the fiscal year due to the BSE case. The weakening U.S. dollar and a charge taken relating to a provision for impaired loans negatively impacted the U.S. results. Earnings in the U.S. Division in U.S. dollars, before the provision for impaired loans, were up slightly over last year due to increased volumes. Feed operations benefited as a result of the government drought assistance program in the western U.S.

The addition of the McCauley equine operations last year also provided positive results for the U.S. Division. The Cotswold Division again experienced significant operating losses as a result of the low hog markets and resulting lack of genetic sales. After several years of significant operating losses, the decision was made to divest the Cotswold business in North America. Divesting the business was a difficult decision, since the pork industry in North America is recovering and there is strong demand for the Cotswold product. It was decided, however, that the degree of additional capital necessary to update the production system, and the research and development expenses necessary to keep the genetics business viable for the long term, is not consistent with our core strategy of feed nutrition, and is not in the best interest of our shareholders. Ridley's positive financial results generated significant cash flow, which allowed the Company to continue its debt repayment program for the third consecutive year.

1. M.S. Mitchell,
Chief Financial Officer



The following table summarizes the Company's operating results for fiscal 2003 and fiscal 2002.

DIVISION EARNINGS RECAP 2003 WITH 2002 COMPARATIVE (CDN \$000)

	Canadian Division		U.S. Division		Unallocated		Total	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
Revenue	184,991	189,657	479,569	473,886	—	—	664,560	663,543
Cost of sales	153,638	159,311	376,362	374,491	—	—	530,000	533,802
Gross profit	31,353	30,346	103,207	99,395	—	—	134,560	129,741
	16.9%	16.0%	21.5%	21.0%	—	—	20.2%	19.6%
Operating expenses								
Selling, G&A	18,674	17,620	56,477	50,343	4,539	3,548	79,690	71,511
Depreciation and amortization	2,083	1,816	8,743	8,331	373	704	11,199	10,851
Research & development	84	27	975	791	—	—	1,059	818
	20,841	19,463	66,195	59,465	4,912	4,252	91,948	83,180
Operating income	10,512	10,883	37,012	39,930	(4,912)	(4,252)	42,612	46,561
Interest expense							6,662	9,150
Claims settlement (income)							—	(3,000)
Loss on the sale of investment							684	999
Other income, net							(1,873)	(3,587)
Net earnings before the following							37,139	42,999
Provision for income taxes							13,692	14,540
Goodwill amortization							—	1,016
Minority interest share of net earnings							105	68
Net income from continuing operations							23,342	27,375
Attributed to discontinued operations							(12,992)	(12,328)
Net earnings for the year							10,350	15,047
Total assets – continuing operations	86,781	87,884	184,962	216,648	5,542	3,784	277,285	308,316
Capital assets, assets held for sale & goodwill – continuing operations	49,691	46,581	122,098	137,387	—	—	171,789	183,968
Total assets – discontinued operations	—	—	—	—	—	—	7,731	21,358

"Operating income" as described above does not have a standardized meaning prescribed by Canadian GAAP, therefore it is not readily comparable to similar measures presented by other companies.

INCOME FROM OPERATIONS

On a consolidated basis, revenue from continuing operations for 2003 increased by \$1.0 million, to \$664.6 million compared with \$663.5 million in 2002.

Cost of sales decreased \$3.8 million, to \$530.0 million compared with \$533.8 million the previous year. The gross profit for 2003 of \$134.6 million was \$4.8 million, or 3.7 percent higher than the 2002 total of \$129.7 million. As a percentage of revenue, the gross profit increased from 19.6 percent in 2002 to 20.2 percent in 2003.

Total operating expenses, including selling, general and administrative expenses, depreciation, and research and development, were \$91.9 million for the year, or \$8.8 million higher than the 2002 total of \$83.2 million. Ridley's operating income of \$42.6 million was \$3.9 million lower than the \$46.6 million recorded in 2002.

Net earnings were \$10.4 million; compared with \$15.0 million in 2002. Reported net earnings in 2003 include a \$13.0 million loss on Cotswold discontinued operations. Fiscal 2003 also includes a write-off of \$0.7 million for an impaired limited partnership and a provision of \$3.4 million for impaired loans receivable, both primarily relating to swine production customers. Reported net earnings in 2002 included a \$12.3 million loss on the discontinued Cotswold European Operations and a loss of \$1.0 million for an impaired research and development investment. These losses were partially offset by a claims settlement received in the amount of \$3.0 million.

The following discussion of division results provides a more detailed analysis of these changes.

CANADIAN DIVISION

Ridley's Canadian Division consists of feed mills operating as Feed-Rite, and in the prior year included the commercial hog production operations operating under the name Quality Swine Systems (QSS). The QSS operation was wound down during the prior fiscal year. The acquisition of Shamrock Feeds, a single mill located in Saskatchewan, was completed during the current fiscal year and integrated with the Feed-Rite business.

Operating income of the Canadian Division decreased by \$0.4 million, to \$10.5 million in 2003 from \$10.9 million in 2002. The decrease was due to a combination of less volume and increased expenses. These costs were partially offset by increased margin per tonne and the earning contributions of the Shamrock acquisition. The BSE case in Canada that closed the border to the U.S. for cattle and beef products had an impact on volume late in the fiscal year. The U.S. government has announced a partial re-opening of the border for certain beef products as of this writing.

Canadian Division revenue decreased by \$4.7 million, or 2.5 percent, from \$189.7 million in 2002 to \$185.0 million in 2003. This is the result of a volume decline from the prior year. Swine and poultry feed volumes were down by 13 percent and 18 percent respectively. Commodity prices were higher than one year ago and offset some of the revenue loss due to the volume declines. Cost of sales decreased by \$5.7 million, to \$153.6 million compared with \$159.3 million in 2002. The volume decline in the Canadian feed operation drove the decrease in cost of sales. Sales on a dollar basis are not an accurate measurement of Ridley feed businesses as they are affected by fluctuating commodity prices.

Gross profit increased by \$1.0 million, or 3.3 percent, to \$31.4 million in 2003 from \$30.3 million in 2002. As a percentage of revenue, gross profit increased to 16.9 percent in 2003 from 16.0 percent in 2002. Canadian feed operations show a higher net margin per tonne of feed sold due to a more profitable product mix with more sales of higher margin, low inclusion products such as premixes and supplements. The addition of Shamrock Feeds also contributed to the gross margin increases.

Total operating expenses increased by \$1.4 million, to \$20.8 million in 2003 from \$19.5 million in 2002. Selling and G&A expenses increased by \$1.1 million, to \$18.7 million in 2003 from \$17.6 million in 2002. This was due to an average 3.3 percent increase in wages and benefits, insurance cost increases of 30 percent and increases in advertising, promotions and bad debt expense.

U.S.DIVISION

The U.S. Division consists of U.S. Feed Operations, Ridley Block Operations and the McCauley Equine Operations. The U.S. Feed Operations had an excellent year despite the challenging environment in which they were operating, due to poor production economics. The drought in the West provided extra volume due to the government drought assistance program that was in place during the late fall and winter months. Ridley Block Operations has a strong position in the low-moisture block market in the U.S. with a more than 50 percent production share. The Block Operations benefited from the drought assistance program as well, increasing earnings over the prior year, and recorded record sales volumes with the continuing good beef economics. The McCauley equine operations continue to add new customers and meet expectations since its acquisition in 2002.

Operating income for the U.S. Division decreased by \$2.9 million, or 7.3 percent, to \$37.0 million from \$39.9 million in 2002. The decrease was due to a weakening of the U.S. dollar against the Canadian dollar from the prior year, impacting results by approximately \$0.8 million, and a \$3.4 million provision for impaired loans receivable. Feed operations' earnings were flat from one year ago, before the impairment charge, while block operations earnings improved. Both feed and block operations gained volume as a result of the government drought assistance program. Overall margins for the U.S. showed slight improvement from 21.0 percent in 2002 to 21.5 percent in 2003. These were offset, however, by an increase in overall expenses.

The U.S. Division revenues increased by \$5.7 million, or 1.2 percent, to \$479.6 million in 2003 from \$473.9 million in 2002. Sales tonnage increased by 6 percent. The revenue increase is accounted for by the increased tons shipped in the U.S. by both feed and block operations. Slightly declining commodity prices, along with product mix changes, reduced revenue dollars. Sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices.

Gross profits for 2003 increased by \$3.8 million, or 3.8 percent, to \$103.2 million from \$99.4 million in 2002. The gross margin dollar increase is the result of increased block sales.

Selling, G&A (S,G&A) costs increased by \$6.2 million, or 12.2 percent, to \$56.5 million in 2003 from \$50.3 million in 2002. S,G&A costs were higher due to advertising, travel and staff additions in the block operations, while medical, insurance and field selling costs increased in the feed operations. In addition, the Company recorded provisions of \$3.4 million for impaired loans receivable due to the deterioration of customers' credit worthiness.

Depreciation increased by \$0.4 million to \$8.7 million compared to \$8.3 million in 2002.

Research and development increased by \$0.2 million, to \$1.0 million from \$0.8 million in 2002, due to expanded research efforts, mainly in the area of swine and dairy research.

COTSWOLDDIVISION – DISCONTINUEDOPERATIONS

The Cotswold Division, which at the start of fiscal 2002 consisted of swine genetics production in the U.K., Germany, U.S. and Canada, consisted of only the U.S. and Canadian operations throughout fiscal 2003. Cotswold Europe was sold in the fourth quarter of fiscal 2002. Ridley has announced its intentions to divest the remaining swine genetics business in North America.

Since 1998, Ridley has incurred significant and sustained losses in the genetics business. Those losses stemmed primarily from the swine price crisis of 1998, the prolonged impact of Foot and Mouth Disease and Classical Swine Fever in Europe, and most recently, the longest period of below break-even hog prices in North America's history. The Company took steps to improve Cotswold's operating performance by restructuring and streamlining the North American operations over the past two years, and by divesting the Cotswold European business last year. However, in spite of these efforts, the North American business has been unable to overcome the poor swine production economics.

The Company is in the process of selling significant portions of its Cotswold North American operations. An after-tax loss of \$9.2 million was recorded to reflect impairment of the related assets. The balance of assets and commitments will be divested in an orderly manner, expected to conclude by June 30, 2004. Continuing losses during the divestiture period of \$1.8 million on an after-tax basis are expected to be recognized in fiscal 2004.

The Company recorded a \$3.4 million tax benefit upon the amalgamation of its wholly-owned Canadian subsidiary on June 30, 2003. The benefit was \$1.7 million relating to the current year earnings and \$1.7 million relating to prior years. This enabled Ridley to utilize cumulative non-capital tax loss carry forwards in which a full valuation reserve had been taken. The Canadian subsidiary is included in discontinued operations.

Operating losses net of tax benefits of \$6.5 million were incurred in Cotswold North America, compared to \$2.1 million in the prior year. Revenues in fiscal 2003 are down \$5.5 million. Depressed hog markets and related decrease in demand for genetic animals severely impacted sales revenue. This was partially offset by a \$2.0 million reduction in operating expenses.

Prior year results include a \$4.3 million operating loss and a \$5.9 million loss on disposal of Ridley's European swine genetics operations (total loss of \$10.2 million). Additional expenses of \$0.7 million were incurred in fiscal 2003 related to residual assets and liabilities remaining in the U.K.

UNALLOCATEDCOSTS

Unallocated costs increased by \$0.7 million in 2003. Fiscal 2003 includes a full year of amortization of costs associated with the global banking facility. Costs are being amortized over the length of the agreement (4 years). Other increases are due to wage and benefit costs, legal and professional fees.

OTHEREXPENSE(INCOME)

Other income is interest received on loans and accounts receivable from third parties, and gain or loss on disposal of fixed assets. Other expense (income) was \$(1.9) million in fiscal 2003, including a \$0.2 million loss on the sale of fixed assets, compared with \$(3.6) million in 2002, including a \$0.5 million gain on the sale of fixed assets.

CLAIMSETTLEMENT

A claim settlement was received from suppliers in Canada, resulting in a gain of \$3.0 million in fiscal 2002.

LOSS ON INVESTMENT

Fiscal 2003 operating results include the write-down in the amount of \$0.7 million of an investment in a limited partnership that was involved in commercial swine production. Depressed swine market prices resulted in the operation incurring substantial losses, and under the terms of the reorganization plans for the limited partnership, Ridley's investment position was substantially diluted.

In fiscal 2002, the Company recorded a loss of \$1.0 million for a research and development investment. The project involved research to develop a proprietary commercial technology for the dairy, beef and swine industries. The economic climate made it impossible to raise the required venture capital to enable the project to continue.

INTEREST

Interest expense decreased by \$2.5 million, or 27.1 percent, to \$6.7 million from \$9.2 million in 2002, primarily as a result of a reduction in debt, combined with lower interest rates. The total debt was reduced from \$98.3 million at the beginning of the fiscal year to \$75.9 million at year-end.

INCOME TAXES

Income taxes as a percentage of net earnings before income taxes and goodwill amortization increased from 33.8 percent in 2002 to 36.9 percent in 2003.

NET EARNINGS FOR THE YEAR

Net earnings for the year decreased by \$4.7 million, from \$15.0 million in 2002 to \$10.4 million in 2003. Net income from continuing operations decreased by \$4.0 million, from \$27.4 million in 2002 to \$23.3 million in 2003. Basic earnings per share for fiscal 2003 were \$0.77, a decrease from the \$1.12 basic earnings per share in 2002. The number of shares outstanding was 13,660,100, compared with 13,409,600 in fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations before changes in non-cash working capital balances, was \$36.5 million, a decrease of \$4.3 million from the \$40.8 million generated in 2002. Non-cash working capital requirements increased by \$11.7 million, resulting in a net cash flow from continuing operations of \$24.8 million.

Capital expenditures for fixed assets during the year were \$9.9 million compared with \$7.3 million in 2002. Cash generated by operations funded capital expenditures.

RISK MANAGEMENT

The Company's businesses are subject to a number of risk factors including: commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations, and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A new risk management position was added during the prior year to provide more emphasis to this strategically important area for the Company. Significant progress was made during the past year identifying risks, making corrective actions, and getting plants more proactive in making risk management a high priority.

COMMODITY PRICING

GRAINS AND PROTEIN MEALS

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term requirements, the Company maintains inventories of grains and protein meals.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part of a feed product or pig. The Company is also subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

HOGS

A declining portion of the Company's revenues is derived from the production and marketing of hogs. As a traded commodity, hog prices fluctuate on an ongoing basis, with some seasonal trending. The Company is therefore subject to risk of changing prices over time. The Company has continued to address this risk, by exiting QSS, selling the Cotswold European operations in fiscal 2002, and announcing the decision to divest itself of the Cotswold North American operations in fiscal 2003.

Periodically, the Company will mitigate its exposure to fluctuating hog prices through the use of forward sales contracts negotiated with major hog processors or marketing agencies, together with futures and option hedging strategies.

SEASONALITY AND WEATHER CONDITIONS

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high-energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). The Company also sells livestock and farm supplies. It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

INTEREST RATES

The Company finances a portion of its business through the use of several long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company has implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy utilizes several hedging instruments including interest rate swaps and forward rate agreements. At June 30, 2003, 80 percent of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to two and one-half years.

FOREIGN EXCHANGE

The Company's Canadian Division makes some purchases and sales denominated in U.S. dollars. The Division is currently a net seller of U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts where warranted for individually material transactions or the net position. The Company at times maintains inter-company loans between the U.S. and Canadian operations. Forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates.

The Company's U.S. Division is considered to be self-sustaining. There are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

The Cotswold Division conducts the majority of its operations in local currencies, but has some transactions in U.S. dollars. Forward exchange contracts are entered into for individually material transactions or where net positions warrant.

CREDIT

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 3 percent of the Company's total gross sales. The Company's customer base is also geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

INSURANCE

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss. A very tight insurance market over the last two years forced the Company to pay higher premium costs.

ACQUISITIONS

During the fourth quarter of fiscal 2002, Ridley Inc. acquired a 51 percent interest in McCauley Bros., Inc., as the first step in a strategic plan to create a new business unit focused on nutrition and specialty products targeted exclusively for equine markets in North America. McCauley Bros., Inc., located in Versailles, Kentucky, near Lexington, has a strong, established reputation in the equine community for quality and service, and has become the feed company of choice to many of the world's leading horse farms and stables. The acquisition performed as expected during fiscal 2003. McCauley represents an important new niche segment of the feed industry that offers new growth opportunities for Ridley Inc.

On August 1, 2002, the Company acquired 100% of Shamrock Feeds Ltd. for an aggregate consideration of \$3.0 million. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan, manufactures a complete line of animal feeds and has been integrated into the Canadian Feed Operations.

SUBSEQUENT EVENT

Subsequent to June 30, 2003, the Company acquired the assets of Heartland, Inc., located in Bismarck, North Dakota. Hubbard Feeds and Heartland have been involved in a successful joint venture for the past ten years. The acquisition includes Heartland's 50% interest in the joint venture, a feed mill, warehouse and retail farm supplies outlet, as well as grain merchandising and birdseed packaging businesses.

OUTLOOK

Results in the feed and block operations during fiscal 2003 were good considering the economic factors impacting the businesses. The drought conditions in the West ended up being a positive factor for the U.S. operations due to the government drought assistance program. The same drought conditions provided a challenge in Canada as there was no government program available. We expect solid gains in the western Canadian plants as producers recover from the drought. The longer term impact of the BSE case in Canada is still unknown, as the U.S. government has announced only a partial reopening of the border for certain beef products as of this writing. On the other hand, the benefit gained in the U.S. by the one-time drought assistance program will not recur. We will be looking for new volume and margin improvements to offset this loss in the U.S. We expect further efficiencies to be gained as a result of the reorganization within the Ridley Feed Operations. The equine operations, which were developed as a result of the McCauley Bros. acquisition, will provide more positive results for feed operations. It is expected the equine operations will continue to expand in new market areas. It is expected that beef economics will remain strong in fiscal 2004, which should provide a strong base for the block operations. The block operations are also positioning for further growth through new products, export markets, and acquisitions.

A major focus for the new year will be to complete the divestiture of the remaining swine genetics business in North America. It is anticipated a significant portion of assets will be sold to parties interested in utilizing the assets to continue production and marketing of Cotswold breeding stock. The balance of the assets will be divested and should be completed by approximately mid-2004. Although Ridley is exiting the swine genetics business, the Company remains committed to meat, milk and egg producers throughout North America. The decision to exit Cotswold will allow us to focus our resources more intensely on our core businesses. Exiting Cotswold is the final step in eliminating Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production.

The Company will continue to strengthen its balance sheet by effectively managing working capital, investing in capital projects that will not only add efficiency to our plants but provide a safe work environment, focused on adding value to the food chain. The Company will continue to reduce debt with the expected positive operating results in fiscal 2004.

FORWARD-LOOKING

This report contains "forward-looking" information within the meaning of the federal securities laws. The forward-looking information includes statements concerning the Company's outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, the availability and prices of live hogs, raw materials and supplies, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards, adverse results from ongoing litigation and actions of domestic and foreign governments.



CONSOLIDATED FINANCIAL STATEMENTS



RIDLEY Inc.

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MANAGEMENTREPORT

The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as of June 30, 2003 and 2002 for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



R.B. Gallaway
President & Chief Executive Officer



M.S. Mitchell
Chief Financial Officer

August 15, 2003

AUDITORS' REPORT

To the Shareholders of Ridley Inc.

We have audited the consolidated balance sheets of Ridley Inc. as of June 30, 2003 and 2002 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP

Chartered Accountants

Winnipeg, Canada

August 15, 2003

CONSOLIDATED BALANCE SHEETS

(expressed in thousands of dollars)

As Of June 30

	2003 (\$000)	2002 (\$000)
ASSETS		
Current Assets		
Cash and short-term deposits	873	1,600
Accounts receivable	36,289	43,908
Inventories (Note 5)	42,226	45,108
Income taxes recoverable	3,354	1,171
Prepays and other current assets	1,821	2,072
Current portion of loans receivable (Note 6)	6,073	7,263
Current assets of discontinued operations (Note 3)	6,574	12,529
	97,210	113,651
Loans receivable, less current portion (Note 6)	12,023	18,397
Investments	414	1,307
Assets held for sale	1,820	2,032
Capital assets (Note 7)	112,912	121,749
Other assets	2,423	3,522
Goodwill (Note 8)	57,057	60,187
Non-current assets of discontinued operations (Note 3)	1,157	8,829
	285,016	329,674
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	44,118	58,457
Current portion of long-term debt (Note 9)	15,818	17,569
Current liabilities of discontinued operations (Note 3)	1,638	3,095
	61,574	79,121
Long-term debt, less current portion (Note 9)	60,075	80,743
Future income taxes	26,674	31,434
Pensions and post-retirement benefits (Note 10)	4,569	5,489
	152,892	196,787
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	83,912	82,098
Minority interest	372	308
Cumulative foreign currency translation adjustment (Note 12)	(10,803)	2,188
Retained earnings	58,643	48,293
	132,124	132,887
	285,016	329,674

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors


J.S. Keniry, Director


M.P. Bickford-Smith, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(expressed in thousands of dollars)

	Year Ended June 30	
	2003 (\$000)	2002 (\$000)
Revenue	664,560	663,543
Cost of sales	530,000	533,802
Gross profit	134,560	129,741
Operating expenses		
Selling, general and administrative	79,690	71,511
Depreciation	10,158	10,010
Research and development	1,059	818
Amortization	1,041	841
	91,948	83,180
Operating income	42,612	46,561
Interest expense	6,662	9,150
Claim settlement (Note 13)	—	(3,000)
Loss on sale of investment	684	999
Other income, net	(1,873)	(3,587)
Earnings before income taxes and goodwill amortization	37,139	42,999
Provision for income tax (Note 16)	13,692	14,540
Minority share of net income	105	68
Earnings before goodwill amortization	23,342	28,391
Goodwill amortization net of income taxes	—	1,016
Net earnings from continuing operations	23,342	27,375
Attributed to discontinued operations		
Loss from discontinued operations (Note 3)	(12,992)	(6,442)
Loss on disposal of discontinued operations	—	(5,886)
	(12,992)	(12,328)
Net earnings	10,350	15,047
Retained earnings, beginning of period	48,293	33,246
Retained earnings, end of period	58,643	48,293
Earnings per share from continuing operations – basic	1.73	2.04
– diluted	1.69	2.00
Net earnings per share – basic	0.77	1.12
– diluted	0.75	1.10

The accompanying notes constitute an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of dollars)

	Year Ended June 30	
	2003 (\$000)	2002 (\$000)
Cash from (utilized for)		
Operating Activities		
Net earnings for the period	10,350	15,047
Items not affecting cash (Note 17)	26,123	25,752
	36,473	40,799
Net change in non-cash working capital balances related to operations:		
Accounts receivable	8,125	(6,780)
Inventories	(939)	5,149
Prepaid expenses	34	181
Accounts payable, accruals and other liabilities	(16,794)	1,500
Income taxes recoverable	(2,147)	4,063
Net cash from operating activities	24,752	44,912
Investing Activities		
Proceeds on disposal of capital assets	618	2,534
Proceeds on disposal of subsidiary (Note 3)	-	351
Business acquisitions (Note 4)	(3,133)	(1,466)
Purchase of capital assets	(9,872)	(7,338)
Decrease in loans receivable	999	4,324
Net cash utilized for investing activities	(11,388)	(1,595)
Financing Activities		
Repayment of long-term debt	(43,235)	(61,262)
Proceeds of long-term debt	27,158	18,930
Payment of finance costs	-	(3,369)
Issuance of share capital	1,814	469
Net cash utilized for financing activities	(14,263)	(45,232)
Effect of exchange rate changes on cash	(125)	(85)
Decrease in cash and short-term deposits	(1,024)	(2,000)
Net cash and short-term deposits – beginning	1,950	3,950
Net cash and short-term deposits – end	926	1,950
Cash of discontinued operations (Note 3)	(53)	(350)
Net cash and short-term deposits	873	1,600

The accompanying notes constitute an integral part of the consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require Ridley Inc. ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates. All amounts are in Canadian dollars unless otherwise specified.

Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

Revenue recognition

Revenue reflects sales of livestock feed, animal health supplies, livestock and farm supplies and equipment. Revenue from product sales is recorded on shipment.

Cash and short-term deposits

Cash and short-term deposits consist of cash and temporary investments with maturities of three months or less when purchased.

Inventories

Inventories are recorded at the lower of weighted average cost and net realizable value.

Investments

Investments represent investments in non-related corporations and are primarily accounted for at cost.

Capital assets and depreciation

Capital assets are recorded at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis at the following annual rates:

Buildings	40 years
Machinery and equipment	10-30 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Trucks, trailers and automobiles	5-10 years
Leasehold improvements	Term of the lease

Goodwill

Goodwill represents the excess of the acquisition costs of investments in subsidiaries over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but is subject to a fair value impairment test on at least an annual basis. Any impairment of goodwill is recognized as an expense in the period of impairment.

Other assets

Other assets include deferred financing and start-up costs that are recorded at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt. Amortization of start-up costs is provided on a straight-line basis over periods of up to five years.

Income taxes

The Company utilizes the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using the enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate change occurs. When necessary, a valuation allowance is recorded to reduce future income tax assets to an estimated realizable amount that more likely than not will be realized.

Foreign operations

The accounts of self-sustaining foreign subsidiary companies are translated into Canadian dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

Derivative financial instruments

Derivative financial instruments that are designated as hedges and are effective as hedges of existing assets and liabilities for anticipated transactions ("hedged items") are accounted for on the same basis as the hedged items. Derivative financial instruments are not recognized in the financial statements at inception. Recognition of gains/losses relating to hedges of specific purchase/sale commitments is deferred until the underlying commitments are realized.

The Company uses derivative financial instruments in the management of its interest rate exposure, exposure to hog price fluctuations and ingredient price exposure. The company does not use derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company hedges its foreign currency exposures on foreign currency denominated intercompany debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. Corresponding translation losses and gains on the related foreign currency denominated debt offset translation gains and losses on the forward exchange contracts.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such a derivative instrument is recognized in net earnings.

Other income

Other income consists primarily of gains and losses on disposal of capital assets and investments, interest on loans and advances made to third parties with which the Company has trading relationships, interest on overdue accounts receivable and income on investments.

Employee future benefits

The Company maintains both defined benefit and defined contribution pension plans. The expense for the defined benefit plans is determined by actuarial valuations of pension plan assets and obligations using the projected benefit method. Current service costs are charged to earnings as they accrue, while past service amounts, experience gains and losses, and adjustments arising from plan amendments or changes in assumptions, are amortized to earnings on a straight-line basis over the expected average remaining service lives of plan members. For the defined contribution plans, the expense is the annual funding contribution required under the plans.

Notes to Consolidated Financial Statements

June 30, 2003

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits.

Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of such stock options are assumed to be used to purchase common shares.

Stock option plan

The Company has a stock option plan that is described in Note 11. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Reclassifications

Prior period amounts have been reclassified to conform to current year presentation. The reclassifications had no impact on net earnings or shareholders' equity as previously reported.

2. CHANGE IN ACCOUNTING POLICIES

Guarantees

In the current year, the Company adopted the Canadian Institute of Chartered Accountants standard Guideline 14 "Disclosure of Guarantees." Under the new guideline, the Company is required to disclose the nature, the maximum potential amount of future payments, the carrying amount of any liability, and the nature of any recourse provisions of all significant guarantees.

Goodwill

Effective July 1, 2002 the company prospectively adopted the Canadian Institute of Chartered Accountants' new standard with respect to accounting for goodwill and other intangibles. Under the new standard, goodwill and other intangible assets which have an indefinite life, will no longer be amortized but will be tested for impairment at least annually.

Goodwill was tested for impairment as of April 30, 2003 and management has determined that there was no impairment in the carrying value of goodwill associated with continuing operations. The Company did recognize a pre-tax charge of \$347,000 associated with its swine genetics business operating in North America.

The impact of the application of the new goodwill accounting policy was that no amortization was taken in the current year. Had the new section not been applied, goodwill amortization, net of income taxes, in the amount of \$1,052,000 would have been charged against net income compared with \$1,280,000 which was recorded in fiscal 2002.

3. DISCONTINUED OPERATIONS/RESTRUCTURING COSTS

The Company has decided to divest Cotswold Swine Genetics, its remaining swine genetics business operating in North America. The Company is in the process of selling significant portions to interested parties. The balance of Cotswold Swine Genetics' assets and commitments will be liquidated in an orderly manner expected to conclude by June 30, 2004. The Company recorded a \$9,174,000 after tax charge to reflect impairment on the related assets. Continuing losses during the liquidation period of \$1,800,000 on an after tax basis are expected to be recognized in fiscal 2004.

The amalgamation of a wholly-owned Canadian subsidiary on June 30, 2003 enabled the Company to utilize the cumulative non-capital tax loss carry forwards in which a full valuation reserve had been taken. A tax benefit of \$3,412,000 has been recognized accordingly. The Canadian subsidiary is included in the discontinued operations and to that extent the tax benefit of \$3,412,000 is reflected in discontinued operations.

On May 10, 2002 (the measurement date), the Company sold its European swine breeding and genetics operations (Cotswold Pig Development Co. Limited). Total consideration of \$2,320,000 includes cash of \$351,000, a short-term receivable of \$178,000, residual assets of \$790,000 and a deferred receivable of \$1,002,000 due three years from sale date. The transaction resulted in a loss on disposal of discontinued operations of \$5,886,000 in fiscal 2002. Certain employee benefit matters were settled as part of the sale. Terms of the sale agreement require related benefits to be adjusted if certain criteria are met over the period ending May 2008. The operating results of this discontinued operation are reported separately in the consolidated statements of earnings and retained earnings.

Notes to Consolidated Financial Statements

June 30, 2003

The assets and liabilities of the discontinued operations are as follows:

	2003 (\$000)	2002 (\$000)
Assets		
Cash	53	350
Accounts receivable and other receivables	1,949	6,969
Inventories	2,504	4,387
Prepays and other current assets	37	16
Assets held for sale	2,031	807
	6,574	12,529
Loans and deferred receivable	1,157	1,411
Breeding stock	-	2,865
Capital assets	-	3,915
Goodwill and other long lived assets	-	638
	1,157	8,829
	7,731	21,358
Accounts payable and accrued liabilities	1,638	3,095

The summarized operating results of the discontinued operations for fiscal year 2003 and for fiscal year 2002, to the date of disposal, are as follows:

	2003 (\$000)	2002 (\$000)
Revenue	20,716	46,206
Loss from discontinued operations		
Operating loss	(7,986)	(6,585)
Asset impairment	(11,711)	-
Loss before income tax	(19,697)	(6,585)
Income tax impact		
Income tax benefit on operating loss	756	143
Income tax benefit on impairment	2,537	-
Income tax benefit on amalgamation	3,412	-
Total income tax impact	6,705	143
Attributed to discontinued operations	(12,992)	(6,442)

	Year Ended June 30	
	2003	2002
Impact of discontinued operations on earnings per share – basic	(.96)	(.92)
– diluted	(.94)	(.90)

Notes to Consolidated Financial Statements

June 30, 2003

The increase (decrease) in cash of discontinued operations is summarized below:

	2003 (\$000)	2002 (\$000)
Net cash from operating activities	(9,086)	(6,770)
Net cash utilized for investing activities	(48)	212
Net cash from financing activities	8,837	6,044
Increase (decrease) in cash of discontinued operations	(297)	(514)

4. BUSINESS ACQUISITIONS

On August 1, 2002, the Company acquired 100% of Shamrock Feeds Ltd. for an aggregate consideration of \$3.0 million. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan, manufactures a complete line of animal feeds and has been integrated into the Canadian Feed Operations.

On April 26, 2002, the Company purchased a 51% share in McCauley Bros., Inc., located in Versailles, Kentucky. McCauley Bros., Inc. manufactures premium quality feeds and nutritional supplements for the equine market. The minority interest share of earnings and equity are shown separately in the consolidated financial statements. In 2003, an additional \$127,000 consideration was paid with respect to the McCauley Bros., Inc. acquisition.

These acquisitions were accounted for using the purchase method of accounting and accordingly, these consolidated financial statements include the results of operations of the acquired businesses from the dates of acquisition. Details of the net assets acquired on the basis of fair value and the consideration given were as follows:

	Shamrock Feeds Ltd. 2003 (\$000)	McCauley Bros., Inc. 2002 (\$000)
Assets		
Accounts receivable	612	1,024
Inventories	275	472
Prepaid expenses	12	58
Capital assets	1,559	1,462
Goodwill	2,070	1,345
	4,528	4,361
Liabilities		
Accounts payable and accrued liabilities	1,297	754
Bank debt	—	1,902
Future income taxes	225	—
Minority interest	—	239
	1,522	2,895
Consideration		
Cash	3,006	1,466

Subsequent to June 30, 2003, the Company acquired the assets and business of Heartland, Inc. (Heartland), located in Bismarck, North Dakota, for an estimated U.S. \$4.4 million. Heartland manufactures a complete line of animal feeds. Heartland and Hubbard Feeds were previously involved in a joint venture.

5. INVENTORIES

	2003 (\$000)	2002 (\$000)
Raw materials	21,685	20,908
Finished goods	20,541	24,200
	42,226	45,108

Notes to Consolidated Financial Statements

June 30, 2003

6. LOANS RECEIVABLE

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. The loans generally bear interest at rates between 4.75% and 9.75% with average terms of four years.

Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender. Current policy generally restricts the granting of loans in excess of U.S.\$500,000 to any one customer.

Loans receivable are presented net of allowances for impaired loans. The total loans receivable balance before allowances as of June 30, 2003 is \$23,348,000 (2002 – \$28,777,000).

The following schedule provides the activity through the allowance for impaired loans during the year:

	2003 (\$000)	2002 (\$000)
Balance – beginning of year	3,117	4,274
Impairment provisions, net of recoveries	3,409	(38)
Loans written off	(1,076)	(1,108)
Foreign currency translation	(198)	(11)
Balance – end of year	5,252	3,117

7. CAPITAL ASSETS

	Cost (\$000)	2003 Accumulated depreciation (\$000)	Net book value (\$000)
Land	6,441	–	6,441
Buildings	48,328	7,572	40,756
Machinery and equipment	86,789	29,683	57,106
Computer equipment	3,721	2,919	802
Furniture and fixtures	4,079	2,672	1,407
Trucks, trailers and automobiles	8,945	5,788	3,157
Leasehold improvements	892	313	579
Construction in progress	2,664	–	2,664
	161,859	48,947	112,912

	Cost (\$000)	2002 Accumulated depreciation (\$000)	Net book value (\$000)
Land	6,879	–	6,879
Buildings	50,979	6,773	44,206
Machinery and equipment	87,998	26,175	61,823
Computer equipment	3,702	2,886	816
Furniture and fixtures	3,969	2,549	1,420
Trucks, trailers and automobiles	8,738	5,438	3,300
Leasehold improvements	961	287	674
Construction in progress	2,631	–	2,631
	165,857	44,108	121,749

Notes to Consolidated Financial Statements

June 30, 2003

8. GOODWILL

	2003 (\$000)	2002 (\$000)
Goodwill	63,357	67,038
Accumulated amortization	(6,300)	(6,851)
	57,057	60,187

9. LONG-TERM DEBT

	2003 (\$000)	2002 (\$000)
Term credit facilities	34,230	56,129
Revolving credit facilities	36,532	39,169
Other facilities and debt	4,244	2,407
Capital lease obligations	887	607
	75,893	98,312
Less current portion	15,818	17,569
Long-term debt	60,075	80,743

The Company has a North American loan note subscription agreement with a syndicate of five international banks. The agreement is subordinated and bound to the general loan facility held by its affiliate, Ridley Corporation Limited. As of June 30, 2003 the multi-currency facility totalled \$121 million. Interest rates for loan notes issued under the Canadian facilities are based on the Canadian loan note rate. This rate is the weighted average of the annual rates quoted by the lenders under the loan note agreement. Interest rates for loan notes issued under the U.S. facilities are based on the London Inter-bank Offer Rate. A general security agreement over all property is maintained as collateral for the facility.

Term loan facilities

As of June 30, 2003, the term credit facilities consist of the following:

- A facility authorized up to \$10,000,000 (2002 – \$14,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2003, \$10,000,000 (2002 – \$14,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 4.32% (2002 – 4.10%).

- A facility authorized up to U.S. \$18,000,000 (2002 – U.S. \$28,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2003, U.S. \$18,000,000 (2002 – U.S. \$28,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 2.05% (2002 – 3.33%).

The term credit facilities are repayable in quarterly principal installments commencing July 18, 2002 with a final payment of the balance of principal and interest due on October 18, 2005. The quarterly installments on the separate facilities are \$1,000,000 and U.S. \$2,000,000, respectively.

Revolving cash advance facilities

As of June 30, 2003, the revolving credit facilities consist of the following:

- A facility authorized up to \$36,000,000 (2002 – \$36,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2003, \$10,000,000 (2002 – \$5,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 4.40% (2002 – 4.10%).

Notes to Consolidated Financial Statements

June 30, 2003

- A facility authorized up to U.S.\$38,000,000 (2002 – U.S.\$38,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2003, U.S.\$19,710,000 (2002 – U.S.\$22,710,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 2.02% (2002 – 3.32%).

The revolving credit facilities expire on October 18, 2005.

Other facilities and debt consist of:

- An unsecured open line of credit authorized up to U.S.\$1,500,000 (2002 – U.S.\$1,500,000). Interest rates are based on the bank's prime rate. Interest rates, including applicable margins, ranged from 3.0% to 3.5% during fiscal 2003. As of June 30, 2003, U.S.\$500,000 (2002 – U.S.\$400,000) was outstanding.

A subsidiary has bank debt and notes payable of U.S.\$1,162,000 as of June 30, 2003 (2002 – U.S.\$1,199,000).

Capital lease obligations consist of the present value of payments related to specified leased transportation equipment, payable at various dates through fiscal 2008.

An unsecured overdraft line of credit authorized up to \$5,000,000. Interest rates are based on the bank's prime rate plus an applicable margin. Interest rates ranged from 4.5% to 5.25% during fiscal 2003. As of June 30, 2003, \$2,007,000 was outstanding.

As of June 30, 2003, the aggregate amount of principal payments estimated in each of the next four fiscal years and thereafter was as follows:

	(\$000)
June 30, 2004	15,818
2005	15,345
2006	44,434
2007	222
Thereafter	74
Total	75,893

10. PENSIONS AND POST-RETIREMENT BENEFITS

The Company has non-contributory defined benefit pension plans covering substantially all of its U.S. employees. Benefits for salaried employees are based on years of service and the employees' level of compensation during specified periods of employment. The plan covering hourly employees generally provides benefits of stated amounts for each year of service. The Company's funding policy is consistent with statutory regulations and equals the amount deducted for income tax purposes. Prior service costs are amortized over the average future service period of active plan participants. Plan assets include equity and fixed-income securities.

The Company provides post-retirement health care benefits for U.S. employees. These benefits are supplemental to statutory provided health care costs. Post-retirement life insurance benefits are provided for a limited period of time. The components of these expenses are not shown separately as they are not material. The costs of post-retirement health care and life insurance benefits are determined under the per capita claims cost method. Under this method, the Company's obligations are fully accrued by the date the employees attain full eligibility for such benefits. These plans are unfunded.

The change in the financial status of the pension plans and other post-retirement obligations and amounts recognized in the consolidated financial statements as of June 30, 2003 and 2002 are:

Notes to Consolidated Financial Statements

June 30, 2003

	Pension		Other benefits	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
Change in benefit obligations				
Benefit obligations				
— beginning of year	16,576	13,554	2,601	2,228
Service cost	1,365	1,311	399	300
Interest cost	1,181	1,065	230	163
Amendments	47	16	—	—
Actuarial gain (loss)	3,228	1,189	2,806	(22)
Benefits paid	(377)	(268)	(94)	(25)
Effect of foreign currency translation	(2,339)	(291)	(638)	(43)
Benefit obligations – end of year	19,681	16,576	5,304	2,601
Change in plan assets				
Fair value plan assets				
— beginning of year	11,951	11,443	—	—
Actual return on plan assets	(1,516)	(541)	—	—
Employer contributions	2,402	1,476	—	—
Benefits paid	(377)	(268)	—	—
Effect of foreign currency translation	(1,315)	(159)	—	—
Fair value plan assets – end of year	11,145	11,951	—	—
Fund status	(8,536)	(4,625)	(5,304)	(2,601)
Unrecognized net actuarial loss	6,779	1,736	2,058	21
Unrecognized prior service cost (benefit)	418	472	16	(492)
Accrued benefit liabilities	(1,339)	(2,417)	(3,230)	(3,072)

The Company's net benefit plan expense is as follows:

	Pension		Other benefits	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
Current service cost	1,365	1,311	399	300
Interest cost	1,181	1,065	230	163
Expected return on plan assets	(1,144)	(1,089)	—	—
Amortization of prior service cost	53	55	3	3
Amortization of (gain)/ loss	23	—	—	(27)
	1,478	1,342	632	439

Weighted average actuarial assumptions as of June 30:

	Pension		Other benefits	
	2003	2002	2003	2002
Discount rate of funded status	6.25%	7.50%	6.25%	7.25%
Expected return on plan assets	9.00%	9.00%	—	—
Rate of compensation increase	4.00%	4.00%	—	—
Health care cost trend rate			8.50%	8.50%
Decreasing to ultimate trend rate			4.50%	5.00%

Notes to Consolidated Financial Statements

June 30, 2003

It is anticipated that the health care cost trend will decrease from 8.5% in fiscal 2003 to 4.5% in fiscal 2011.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effect on cost components and benefit obligations:

	One percentage point (\$000)	
	Increase	Decrease
Medical service cost and interest	156	(119)
Accumulated benefit obligation	1,332	(1,029)

The Company also provides defined contribution plans for substantially all U.S. and Canadian employees. The Company's contributions amounted to \$1,571,000 in 2003 and \$1,590,000 in 2002.

11. SHARE CAPITAL

	2003 (\$000)	2002 (\$000)
Authorized		
Unlimited number of common shares, no par value		
Issued and outstanding		
13,660,100 common shares (2002 – 13,409,600)	83,912	82,098

The number of shares issued increased during fiscal 2003 due to the exercise of stock options. As of June 30, 2003, Ridley Corporation Limited held 69.8% of Ridley Inc.'s common shares.

The following is a reconciliation of the basic and diluted shares outstanding as of June 30, 2003 and 2002:

	2003	2002
Shares outstanding – basic	13,660,100	13,409,600
Incremental shares related to outstanding stock options	270,991	256,197
Shares outstanding – diluted	13,931,091	13,665,797

Stock option plan

Under the terms of the Company's stock option plan, approved by shareholders at the Annual and Special Meeting of Shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The stock option plan provides that the aggregate number of common shares which may be reserved for issuance under the stock option plan cannot exceed 10% of the common shares of the Company then outstanding.

	Number of options	2003 Weighted average exercise price \$	Number of options	2002 Weighted average exercise price \$
Stock options outstanding – beginning of year	750,900	7.24	926,000	7.20
Changes pursuant to				
Options cancelled	—	—	(103,000)	7.39
Options exercised	(250,500)	7.24	(72,100)	6.50
Stock options outstanding – end of year	500,400	7.24	750,900	7.24

Notes to Consolidated Financial Statements

June 30, 2003

The following stock options to purchase common shares were outstanding as of June 30, 2003:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Sept. 3, 1998	\$10.65	Sept. 3, 2000	Sept. 3, 2004	146,000
Dec. 1, 1999	\$6.50	Dec. 1, 2001	Dec. 1, 2005	142,400
Nov. 6, 2000	\$5.38	Nov. 6, 2002	Nov. 6, 2006	212,000
				500,400

All options are fully vested and are subject to the terms and conditions set out in the stock options agreement.

12. CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

The cumulative foreign currency translation adjustment account primarily reflects the net changes in the respective book values of the Company's investments in self-sustaining U.S. and U.K. operations due to exchange rate fluctuations since the respective dates of acquisition.

	2003 (\$000)	2002 (\$000)
Balance – beginning of year	2,188	4,959
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	(12,991)	(1,552)
Effect of exchange rate variation on translation of items designated as hedges of net investments in self-sustaining foreign operations	–	(1,219)
Balance – end of year	(10,803)	2,188

13. CLAIM SETTLEMENT

A claim settlement was received in fiscal 2002 from suppliers in Canada resulting in a gain of \$3,000,000.

14. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying value of the Company's recognized financial instruments, which include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt, approximate their fair value.

The fair value of loans and advances receivable is not determinable as replacement financing is not readily available in the market place.

Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable.

Accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company performs regular credit evaluations on all of its customers.

The five largest loan balances comprise 52% (2002 – 54%) of the total loan portfolio, of which one customer comprised 34% of the total net loans receivable balance as of June 30, 2003 (2002 – 43%).

Interest rate risk

The Company enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

Notional amount	Interest rate	Term of agreement	Repricing period
U.S. \$10,000,000	3.55%	December 24, 2003	3 months
U.S. \$10,000,000	4.34%	December 24, 2004	3 months
U.S. \$10,000,000	7.11%	December 24, 2004	3 months
C \$20,000,000	5.90%	January 4, 2005	3 months

The unrealized loss on these instruments is \$2,854,000 as of June 30, 2003.

Notes to Consolidated Financial Statements

June 30, 2003

Foreign exchange risk

The Company at times enters into forward foreign exchange contracts to hedge future sales denominated in foreign currencies. The Company also may enter into forward foreign exchange contracts to hedge intercompany loans denominated in foreign currencies. The terms of the foreign exchange contracts are less than one year. As of June 30, 2003, the Company had contracted to sell U.S. \$13,000,000 at a Canadian equivalent of \$17,706,000. Forward foreign exchange contracts are not significantly different from the face value. As of June 30, 2003, the unrealized gain on open forward foreign exchange contracts was \$196,700.

Commodities risk

The Company enters into options contracts to secure a selling price floor on its inventory of swine. The Company also enters into futures contracts to protect it from increasing prices in feed ingredients consumed in the production of swine. As of June 30, 2003, the unrealized loss on lean hog options contracts was U.S. \$117,973. As of June 30, 2003, the Company also had corn and soybean future contracts at various positions totalling a U.S. \$76,630 unrealized loss. The terms of the commodity contracts are less than one year.

15. COMMITMENTS AND CONTINGENCIES

As of June 30, 2003, the Company was committed to making payments as follows:

	Operating leases (\$000)	Producer agreements (\$000)	Livestock purchase commitments (\$000)
June 30, 2004	2,703	1,681	7,774
2005	1,907	907	485
2006	1,462	907	—
2007	975	588	—
2008	302	95	—
Thereafter	1,779	—	—

The Company leases vehicles, buildings, and office equipment. The total rent expense for fiscal 2003 was \$4,092,000 (2002 – \$4,589,000).

The Company contracts with third party producers pursuant to various swine production agreements, grow-out and feeding agreements. Under the terms of the agreements, livestock owned by the Company is managed and maintained in the producers' facilities for which the Company pays the producer a management fee.

The Company contracts with third party producers pursuant to various livestock supply agreements. Under the terms of the agreements, livestock raised by the producer must be delivered to the Company at a specified price.

Guarantees

The Company has undertaken to guarantee the debts and obligations of a select group of customers or producers with their respective lending institutions (bank). The guarantees typically decline in amount according to the customer's repayment schedule. Failure on the part of the customer to make payment on a specified loan obligates the Company to make restitution to the bank for the amount guaranteed. Generally, the Company obtains a security interest on the customer's farm assets. This security is subordinated to the position held by the customer's bank. The following summarizes the Company's outstanding guarantees:

Guarantees of ten U.S. customers in aggregate of U.S. \$1,095,000 secured by an equal amount of collateral, expected proceeds from collateral of U.S. \$1,042,000, varying expiration dates up to November 2005. As part of the agreements, the customers must purchase their animal feed requirements from the Company.

Guarantees of three Canadian producers associated with discontinued operations (note 3) in aggregate of \$525,000. All expire in the second quarter of fiscal 2004.

A series of unsecured guarantees of one major U.S. swine producer, totalling U.S. \$1,700,000, with varying expiration dates up to July 2010. The customer is required to purchase animal feed for the livestock maintained in the facilities associated with the guarantees.

Notes to Consolidated Financial Statements

June 30, 2003

Legal actions and other

The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defence of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements

16. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following reasons:

	2003 (\$000)	2002 (\$000)
Earnings before income taxes and goodwill amortization	37,139	42,999
Combined statutory tax rate	38.2%	39.6%
Tax payable based on statutory tax rate	14,187	17,028
Non-allowable expenses	673	768
Effect of income tax rate differences	354	(1,250)
Effect of foreign deductions	(1,522)	(2,006)
Provision for income taxes	13,692	14,540
Current	8,636	10,731
Future	5,056	3,809
	13,692	14,540

17. STATEMENT OF CASH FLOW DISCLOSURES

	2003 (\$000)	2002 (\$000)
Earning items not affecting cash		
Goodwill amortization	-	1,974
Depreciation of capital assets	10,509	11,022
Future income taxes	345	3,833
Diminution in value of breeding stock	587	638
(Gain) loss on sale of fixed assets	228	(428)
Loss on sale of subsidiary (Note 3)	-	5,886
Loss on asset impairment (Note 3)	9,174	-
Loss on sale of investment	684	999
Loan impairments	3,409	-
Other items not affecting cash	(26)	793
Other amortization	1,213	1,035
	26,123	25,752

The following amounts were paid on account of interest and taxes:

	2003 (\$000)	2002 (\$000)
Interest	6,915	10,043
Income taxes	11,371	5,005

Notes to Consolidated Financial Statements

June 30, 2003

18. SEGMENT INFORMATION

The Company operates two segments that have been segregated on the basis of geographic regions.

The Canadian Division manufactures and distributes livestock feed to customers primarily in the prairie region. The products include a full range of complete feeds and supplements and are marketed directly to agricultural producers. The Canadian Division formerly operated a market hog operation that utilized feed products from the feed milling operation to finish hogs for commercial slaughter. Revenue attributable to hog sales in 2003 is nil (2002 – \$12,537,000). The Company exited the market hog operation in fiscal 2002.

The U.S. Division manufactures and distributes livestock feed to customers primarily in the U.S. Midwest. The products include a full range of complete feeds and supplements and are marketed both through a dealership network as well as directly to agricultural producers.

The Company evaluates performance based on operating income. Operating income is defined as earnings before interest, taxes, goodwill amortization and other unusual items.

An analysis of segment information is as follows:

	Canadian Division		U.S. Division		Unallocated		Total	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
Revenue	184,991	189,657	479,569	473,886	–	–	664,560	663,543
Cost of sales	153,638	159,311	376,362	374,491	–	–	530,000	533,802
Gross profit	31,353	30,346	103,207	99,395	–	–	134,560	129,741
	16.9%	16.0%	21.5%	21.0%	–	–	20.2%	19.6%
Operating expenses								
Selling, G&A	18,674	17,620	56,477	50,343	4,539	3,548	79,690	71,511
Depreciation and amortization	2,083	1,816	8,743	8,331	373	704	11,199	10,851
Research & development	84	27	975	791	–	–	1,059	818
	20,841	19,463	66,195	59,465	4,912	4,252	91,948	83,180
Operating income	10,512	10,883	37,012	39,930	(4,912)	(4,252)	42,612	46,561
Total assets – continuing operations	86,781	87,884	184,962	216,648	5,542	3,784	277,285	308,316
Capital assets, assets held for sale & goodwill – continuing operations	49,691	46,581	122,098	137,387	–	–	171,789	183,968
Total assets – discontinued operations	–	–	–	–	–	–	7,731	21,358

Revenues, capital assets, assets held for sale and goodwill by geographic area are as follows:

	Revenue		Capital assets, assets held for sale & goodwill	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
United States	485,820	479,074	122,612	137,963
Canada	178,740	184,250	49,177	46,005
Other	–	219	–	–
Total	664,560	663,543	171,789	183,968

RIDLEY INC. CORPORATE DIRECTORY

Corporate Office

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Chairman

R.B. Gallaway,
President & C.E.O.

M.S. Mitchell,
Chief Financial Officer

J.D. Richardson,
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Bob Revell
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Corporate Web Sites

www.ridleyinc.com
www.hubbardfeeds.com
www.feedrite.com
www.ridleyblockoperations.com
www.crystalyx.com
www.ridleyfeedingredients.com
www.mccauleybros.com
www.cotswoldpig.com

Company Information

For investment analyst inquiries, please contact our Chief Financial Officer at (507) 388 9410. For copies of annual and quarterly reports, annual information forms and other disclosure documents, please contact our Corporate Secretary at (204) 956 1717.

Financial Calendar 2003 - 2004*

Following are the anticipated dates on which the Company will announce its results of operations:

First quarter report to September 30	November 13, 2003
Second quarter report to December 31	February 23, 2004
Third quarter report to March 31	May 13, 2004
Year-end results to June 30	August 30, 2004

* Subject to change

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard Feeds, Cotswold Swine Genetics, Wayne Feeds, Ridley Feed Ingredients, Ridley Specialty Products, Ridley Block Operations, Daco Western Canada, Farmix, CRYSTALYX®, McCauley's®, Post Time®.





RIDLEY Inc.